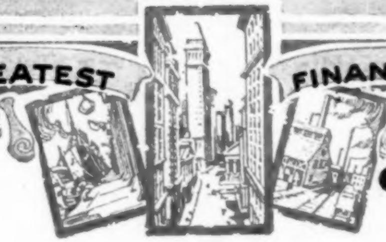
Sound Investment, World Finance and Big Business

The MAGAZINE of WALL STREET

AMERICA'S GREATEST FINANCIAL PUBLICATION



Industrial Earnings and Dividends

Bond Buyer's Guide

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Assistant Treasurer Guaranty Trust Co.

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Liberty 4¼s—Unparalleled Investment Opportunity

PER COPY 25¢ Vol. 22 SEPT. 14, 1918 No. 12 PER YEAR $5.

Liberty 2nd 4¼s a Wonderful Bargain at 94

LEAVING aside for a moment all questions of patriotism, and judging Liberty 2d 4¼s (converted) just as you would any other high grade bond, they may be regarded as an unprecedented bargain at 94 or thereabout.

If, as you and I firmly believe, we shall have the Kaiser done to a turn in 1919, 1920, or 1921, all U. S. Government bonds should thereafter advance to prices which will reduce the yield to 3½%, or possibly better. As no one Liberty Bond is more safely secured than any other, the greatest price enhancement should take place in the issue now selling the most below par. At present this means the 2d 4¼s at 94.

These bonds should advance, within three years, to at least 107.

The difference between 94 and 107 is $130 per thousand-dollar bond. And this $130 profit, if it accrues within three years, means $43.33 per year. Add this to the $42.50 interest per annum paid on the bond and you have $85.83 or over 9% on cost. This represents your probable net income per annum if it takes as much as three years to settle this Kaiser business.

But, wait a moment: That's only part of the story.

If peace comes in 1920, this $130 profit will be divided between the two years. That means $65 a year plus $42.50, or $107.50 per year—over 11% on cost!

Better yet, if the predictions of our military authorities come true, and we win the war in one year, this $130 profit, added to the $42.50 interest, will return $172.50 by the fall of 1919. This is over 18%!!

Liberty 2d 4¼s are therefore not only the world's premier investment, but *they are a tremendous bargain at* 94 or anywhere near that price.

Never before, in the history of the world, has there been such an opportunity to purchase the highest grade security with the possibility of a return heretofore obtainable only in the most speculative mining, oil and industrial issues.

Look over your present holdings of miscellaneous securities and see if there are not some that you might well exchange for Liberty 2d 4¼s. Thus you will not only increase your income and add to your possible profits, but you will be doing a patriotic act in helping to restore the price of these Liberty bonds to par.

Richard D. Wyckoff

Established 1907

The MAGAZINE of WALL STREET

Vol. 22 September 14, 1918 No. 12

THE OUTLOOK

A DISTINCT tendency toward a broader and higher market was nipped in the bud, temporarily at least, by the decision of the banks' Money Committee to require a daily statement from brokers of their outstanding call and time loans, which was accompanied by the announcement that no further expansion of loans, on Stock Exchange collateral would be permitted for the present. Professionals at once accepted this as sounding the death-knell of any broad speculative movement based on the continued progress of the Allies in France or the final adjustment of the railroad contracts, and many stocks held for the rise were rather hastily dumped over. But as the previous advance had been largely due to investment buying, the total decline of prices was not severe.

The Money Outlook

THERE is general agreement in Wall Street that the action of the Federal Board, as represented by the Money Committee, was based upon sound principles. Higher prices as a result of investment buying would be welcomed and would tend to strengthen the general situation; but buying stocks on borrowed money tends to expand loans at a time when they are already much expanded by our varied war activities. The war must of course be given the preference. Loans on stocks and bonds which would be entirely harmless or even desirable under ordinary conditions, would now tend to draw money away from uses more essential to the progress of the war.

On the other hand, the Committee's action amounts to an assurance that Stock Exchange loans now outstanding will not be called in. Therefore it affords no reason for any considerable fall of prices. The Committee's view is that loans are not now overexpanded; that they are on a conservative basis, and that it would be undesirable to disturb values by reducing loans; but they must be kept on a conservative basis and must not be used as a foundation upon which to build up a speculative structure.

Next Liberty Loan Campaign

RESTRICTION of stock exchange loans is merely a part of the preparations being made for the flotation of $5,000,000,000 or more of new Liberty Bonds beginning Sept. 28, into which all our available resources for the time will have to go. For the same reason a close watch is being kept over all new security issues. Efforts are being redoubled to prevent offerings of a highly speculative character, such as cheap mining stocks. In order to assure the necessary capital for the war, the strings are being drawn tighter and tighter against the flow of capital in other directions.

The Railroad Contracts

OBJECTIONS to the text of the railroad contracts are chiefly based on the fact that the Government fails to guarantee the roads against losses after the war which might result from permanent diversion of traffic or from improvements and extensions necessary for war purposes but unproductive thereafter. These rather remote difficulties are being somewhat overemphasized at the moment. Government officials have expressed the determination to return the roads to their owners in as good condition as when taken over, and we see no reason to doubt that they will make a sincere effort to do that.

It is impossible to foresee all the contingencies which may arise, nor can railroad stockholders expect to be excepted from the uncertainties which are inseparable from war conditions. The fact is that railroad rates after the war will affect the prosperity of the roads a good deal more than the minor provisions of the present contract. In the mean time, the "standard return" of earnings is guaranteed until 21 months after peace treaties are signed.

Business at High Tide

THE process of shifting labor from the less essential to the more essential industries continues and has by no means reached its limit. At the present rate, we shall have over 5,000,000 men in uniform by next summer, or nearly one-twentieth of our total population. When we bear in mind the number of war-workers required to back up each man in uniform, it is clear that the transfer of labor to war work must be far greater than has yet taken place. We shall have to concentrate still more on the essentials.

Business activity is now limited only by the men and materials available. For August, bank clearings outside New York were about 25% greater than in August, 1917, and 2½ times as great as in August, 1914. It is true that there has been some advance in commodity prices during the last year, which naturally tends to swell bank clearings, but the principal part of the increase is due to the further speeding up of industrial activity.

The advance in the general level of commodity prices since May has been perceptibly slowing down, partly as a result of the extension of Government price-fixing. It is an interesting question whether prices can be prevented from going still higher.

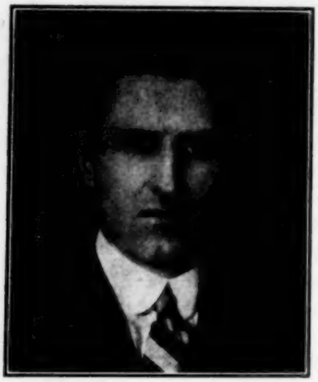
The Market Prospect

THE sharp recession in prices has improved the market technically, since the selling was practically all by holders who had been hoping for a further rise of prices. However, now that the government has undertaken to control the supply of call and time money, we believe pools will have difficulty in financing new operations. Some heavy selling early this week was from such sources and we expect to see more of it.

As the public seldom takes the initiative, there remains nothing but investment buying to advance prices. This is not likely to be very effective during the next few weeks, part of which will be devoted to the Liberty Loan Campaign. Under the circumstances, we look for a lower level of prices in the steels and the highly speculative stocks, although we do not expect to see the railroads or the utilities decline very much from this level.

Sept. 10, 1918.

FINANCING YOUR BUSINESS



A New Department for the Capitalist, Banker and Business Man

Financing Your Business Through Acceptances

Trade and Bank Acceptances—Advantages to Buyer and Seller—An Aid to the Nation's Financing

By WILLIAM G. AVERY
Assist. Treasurer, Guaranty Trust Co. of N. Y.

TWO classes of Acceptances are used in financing business—Trade Acceptances and Bank Acceptances. It has always seemed to me that "commercial acceptances" would be a much better name to use to designate the former. The word "Trade" does not, I think, cover in the right sense the object attained by acceptances made to settle commercial obligations and possibly is liable to misinterpretation.

The commercial acceptance has for years been an important factor in European money markets, and, had it not been so, it is doubtful whether Great Britain, for instance, could have financed herself and her allies to the unprecedented extent required by the present war.

The acceptance is not new in American history. It was in use before the Civil War, but, the disorganization which followed that war, developed a demand for cash which popularized the cash discount, and this practice has continued in favor down to our times. The creation of the Federal Reserve System has, however, made possible the development of the acceptance method by means of the rediscount privilege.

The Trade Acceptance

Hitherto, the principal basis upon which business has been financed with banks, has been by commercial paper or promissory notes. The acceptance is more desirable, in that it bears at least two names, while a note has only one.

The operations involved in a trade acceptance transaction are as follows: In general, the seller when rendering an invoice for any single purchase of merchandise, if the amount is reasonably large and is payable by an agreement within a certain specified time, will accompany the invoice with a trade acceptance form duly filled out for the amount due, or, in cases where a buyer purchases of the seller several bills of small amounts during the month, the seller when rendering a monthly statement will accompany the same with a trade acceptance form duly filled out for the total amount. Upon receipt, the buyer has the option of either paying the bill in cash, deducting such cash premium or discount as may be allowed, or, he may accept the draft by writing across its face the date and the words "Accepted—Payable at——————Bank," and then signing and returning it to the seller, thus closing the first stage of the transaction. The seller will then either retain the acceptance in his portfolio until a short time before it is due, when he will forward it for collection through his bank for presentation to the bank designated on the acceptance, or, if he finds himself in need of funds, he may, instead of borrowing from his bank on his single-name promissory note, prefer to take a number of trade acceptances and discount them with his banker, or sell them in the open market through brokers or dealers in such paper, thus

converting into available live capital the funds that are practically unavailable, through being locked up in open book accounts.

The question has been very much discussed as to whether any inducements should be offered to the buyer to give his acceptance. Opinions on this point differ; but I think it should not be done, because such a practice might be abused, and at any rate, the advantages to the buyer should obviate the necessity of any other inducements.

A corporation which has had experience in the use of the trade acceptance system, says: "Except where unusual circumstances have existed, we have not found it necessary to offer any special inducement to obtain acceptances from our customers. Such cases have been rare, and the maximum concession has been a few days extra time. In no case have we allowed any extra discount and it has been seldom requested." This seems to prove that the buyer understands that by accepting, he will be benefited in other ways. It must be borne in mind that a commercial acceptance cannot be renewed. If the acceptor requires an extension of time, he must give his promissory note.

Advantages to Buyer

The question is often asked, "What advantage is it to the buyer to give his acceptance, especially when he has been accustomed to pay cash for his purchases?" The advantages are many, and though some of them may not appear to be attractive on paper, they invariably prove so in practice. Some buyers object to the acceptance, because they consider it a promissory note, and certain sellers hesitate to urge the use of acceptances for fear of losing trade. The acceptance enables the seller to handle his business at a smaller operating cost and, therefore, to sell at lower prices without decreasing his profits—an advantage which no buyer could fail to see. It develops careful buying; enables him to know just where he stands financially, and, even better, what he can or cannot do on his capital. It also strengthens his credit.

When using trade acceptances, the buyer knows definitely the dates on which he has to make payments, and this develops a habit of promptness in fulfilling obligations, which is bound to have an appreciable effect on his business in general. Their use enables the buyer of modest standing to compete more effectively with larger firms. It gives him a better credit rating, because his business is on a definite financial basis, which it cannot be when his debts are on open account, with no means of ascertaining when they will be liquidated. In this conection, a buyer who gives his acceptance is stimulated to meet his obligations promptly. We all know how easy it is to get into the habit of procrastination in making payments, if no definite date is set. With an acceptance we cannot say, "Tomorrow will do," but we have to say "Pay now." These, I think, are the main advantages to the buyer in giving his acceptances for his purchases.

Advantages to Seller

The benefits accuring to the seller are more obvious. In the first place, the open account method is admitted on all sides to have many objectionable features. It places a firm carrying them, in the position of being unable to determine, with any degree of exactness, what its financial condition will be on a given date. The chief evil, of course, is the tie-up of capital. If I am not mistaken, there is at the present time an average of some four billions of capital in the United States, continuously represented by open accounts. By the use of acceptances, a great part of this capital would be released for further business operations.

When the buyer gives his acceptance covering a bill of goods, the onus of proving the incorrectness of the delivery devolves on him, and this is a material benefit to the seller. On the other hand, the buyer does not waive legal claim against the seller, merely because he has given his acceptance.

Other advantages to the seller are as follows: Acceptances are essentially liquid assets, whereas open accounts, though designated as such, are very

often found to be far from liquid. Expenses are reduced in the matter of collections, and the possibility of having to sell open accounts at a high discount is obviated. The seller's financial standing is materially strengthened, because the nature of his accounts can easily be ascertained, and because he himself is in a better position to gauge the reliability of his customers. Borrowings are confined only to the actual necessities of business.

The seller, by requesting the buyer's acceptance, is morally assisting him to fulfill his contract as he intended to do, but which he might have a tendency not to do, if he carried his obligation on open account. The seller is enabled accurately to gauge what his incoming collections will be, covering a stated period. The acceptance stimulates and expands business by making capital more elastic. This is of benefit to both sides. The buyer is enabled to take his bank, paper which commands a lower rate of discount than straight commercial paper. The acceptance will eliminate many losses by bad debts, overextension of business, cancellation of orders, return of goods without sufficient reason, and the practice of taking unearned and unauthorized discounts.

To revert to the open account system with its indefinite time of payment, this is a business habit with many disadvantages. The first and foremost defect is that it forces the seller to carry the financial burden of the buyer, and moreover, ties up the seller's invested or borrowed capital for an indefinite period. The commercial acceptance is everything that the open account is not. It does not lessen the advantage to the buyer, but it secures his credit for a definite instead of an indefinite time.

As assets, open accounts are neither quick nor sure. They are generally slow and uncertain of realization. Even the best of them are seldom available for a loan of more than 50% of their face value. In the form of eligible acceptances, open accounts can be fully converted into cash at a better rate than is commanded by promissory notes. With the advent of the acceptance, the promissory note is becoming merely an auxiliary of business.

Another defect of the open account system is the ease with which payment can be put off, and, if it becomes necessary to sue in order to collect, the correctness of the book entries must first be proved. The buyer thereupon may raise objections and cause much delay. The acceptance is an acknowledgment of the receipt of the goods and proof of the validity of the debt.

The open account is costly. The expense involved in collecting slow accounts, in payment extensions, in the return of goods, in the abuse of sale terms, in trade discounts, and in the assignment of accounts receivable—all characteristic of the open account system—in the aggregate constitutes a heavy tax on business.

All these disadvantages are eliminated by the use of the acceptance, which gives stability to commercial credit and transforms deferred obligations into definite assets and liabilities.

Undesirability of Open Accounts

In passing, perhaps a few statistics will not be amiss to demonstrate the undesirability of the open account. Among manufacturers, the terms are usually 60 days less 2% discount for cash in 10 days. Reports show that when the bills are discounted, instead of being paid in 10 days, they have averaged 15 days, and for those who take an option of 60 days, the average payment is from 75 to 80 days, and at least 10% take 90 days, or more.

As to wholesale distributors, the reports indicate that throughout the country generally from 40 to 50% of buyers discount their bills within 15 days after purchase, while of those who take the 60-day option, from 25 to 30% pay "promptly" or within one month following the 60-day maturity. Of the remaining 20% only about one-half pay in the period between three and four months after purchase, while the other half pay in from four to six months, or never, notwithstanding that the terms of sale agreed upon were for a credit of only 60 days.

Thus, it is much safer to sell on longer time with acceptance than to sell on so-called short time with open accounts, the date of payment of which is most uncertain.

Will Assist Country's Finances

The last inducement to use the trade acceptance—but I am sure not the least —is the fact that the use of such acceptances will assist the finances of the country and help to win the war, and that object is one we all are interested in, heart and soul.

The acceptance method does not present a complicated problem by any means. The very definition of a trade acceptance as set forth by the Federal Reserve Board, will evidence that fact:

"A trade acceptance is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay at a fixed or determinable future time, a certain sum in money to the order of a specified person. The bill must be drawn by the seller on the purchaser of goods sold, and accepted by such purchaser."

It is an exceedingly simple, direct, economic method of covering credit obligations arising from the sale of merchandise. There is no mystery about it; it promotes sound business, and it is not antagonistic to any proper business methods now in use. Above all, it represents substantial value to the nation in times of stress.

To quote from an eminent authority and an indefatigable worker in the interest of the commercial acceptance:

"The line of duty for us is clear—buyers and sellers and bankers, American business men all, should get squarely behind the trade acceptance, and follow this splendid movement in its interest, which has been put upon such a definite basis. Let us think in terms of war, and war necessities and conditions after the war, and *not* in terms of a business past, now as clearly removed as is the past of the Pharaohs.

"Let us realize that there has come into the world, and particularly into this great Western world of our own, a new spirit,—a new dispensation,—new responsibilities, and new obligations, which we dare not disregard. The acceptance is here,—is here to stay,—is a part of the business and financial life of this community, whether or not the occasional banker or business man would have it so. The only question is,—how soon will it be possible to bring this fact definitely to the attention of the business of the country?"

The Bank Acceptance

Now, a few words as to the bank acceptance. This, in its functions, is somewhat different from the trade acceptance, as its different from the trade acceptance as its definition which follows, implies:

"A bill of exchange, of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits."

An acceptance by a bank of a draft drawn on it by its customer, or by some other party for his account, is essentially the extension of the bank's credit to that customer, which, by prearrangement, the bank agrees to do for an adequate consideration. This consideration is usually in the shape of a commission averaging 1/8% per month. This commission must not be confused with discount, which is an entirely separate function.

Of course, the fact that a bank permits a customer to use its name and credit, greatly enchances the standing of that customer, as a bank necessarily does not agree to do so unless it is perfectly satisfied as to a customer's responsibility and character.

When a bank accepts drafts drawn by a person or firm other than the customer, but for his account, the transaction is accomplished by means of a letter of credit from the bank in which it agrees upon certain terms and conditions to accept bills drawn on it up to a certain amount. It is easy to understand that by means of such an arrangement, the customer is able materially to increase the scope of his activities, because when he is able to

give his seller a bank credit he does not necessarily have to be known in a particular market.

To give an example in detail of the method of creating a bank acceptance, we will suppose that Mr. Smith, buys from a firm in New York, a bill of goods which he is unable to finance without assistance. He requests his bank to finance him by way of an acceptance credit. The bank agrees to write to the New York concern to the effect that they will accept drafts drawn by that firm on them with documents attached covering the said goods. When the drafts are presented the bank accepts them, taking possession of the documents as security for their liability.

Mr. Smith now may desire very particularly to have the merchandise delivered. As his reputation with the bank is very good and his financial responsibility undoubted, the bank lends him the documents, until he is able to get value for them. He undertakes, however, to provide funds in order that the bank shall have cover to meet its acceptances at maturity.

If, on the other hand, a customer wishes to finance the transaction himself, he draws his own drafts on his bank and gives as security bills of lading or warehouse receipts, or if he is of undoubted credit and high financial rating, the bank may not require security.

Eligibility of Bankers' Acceptances

As to the eligibility of bankers' acceptances for purchase under the regulations of the Federal Reserve Act, eligible bills are those which have a maturity at the time of purchase of not more than three months, exclusive of days of grace, and must have been drawn covering a transaction for any one of the following purchases:

"The shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries; or, the shipment of goods within the United States, provided the bill at the time of its acceptance is accompanied by shipping documents; or, the storage within the United States of readily marketable goods, provided the acceptor of the bill is secured by warehouse, terminal, or similar receipt; or, the storage within the United States of goods which have been actually sold, provided that the acceptor of the bill is secured by the pledge of such goods; or, it must be a bill drawn by a bank or banker in a foreign country or dependency, or insular possession of the United States for the purpose of furnishing dollar exchange."

Banks are generally ready and willing to invest surplus funds in first-class acceptances which, of course, they have the option of holding until maturity, or of selling in the open market, should the surplus they have invested be needed. These acceptances are an excellent short-term investment. The discount rate is based finally on the Federal Reserve Bank rate, though it is impossible to give any method of calculation as a general principle, because there are so many circumstances surrounding each acceptance, among them being the names, the desirability of the business, the endorsements, etc. These acceptances can be disposed of either through the Federal Reserve Bank, or in the acceptance market consisting of banks and brokers.

A broker will ask a bank if they will sell or buy a certain amount of prime acceptances, specifying the time of delivery and the length of time for which the required acceptances are to run; for instance, $1,000,000 First National Bank under 60 days, or 60 to 90 days. Banks also sell and buy between themselves in the same way. The average profit in this trading in acceptances should be at the rate of about 1/4 to 3/4%. The denominations most in demand are from $10,000 to $25,000.

It will readily be seen that the good standing of the accepting bank makes this paper most desirable, as purchasers are not then under the necessity of scrutinizing closely the credit standing of the drawers, because the acceptor is the party primarily responsible.

Intimate Talks to Investors

By RICHARD D. WYCKOFF

I'VE been writing a series on Right and Wrong Methods in Investment and Speculation, based on observations covering thirty years of close contact with the security markets and the people who make and patronize them. But in looking over the mass of inquiries that pour into the magazine office daily it occurred to me that perhaps my readers would better appreciate something a little more personal and intimate—something in the line of let's-sit-down-and-talk-it-over.

Were it possible I'd like to reply to each and every letter myself, for they all present human interest situations that I thoroughly understand and sympathize with. But having several other things to do, I can only guide and instruct those in charge of the Inquiry Department and in the near future I hope to broaden out this department as well as other branches of our service.

There are many ways in which these "Talks" (in future they will supplant the series), can be made to take the place of such a personal correspondence. Your queries (which should be addressed to the Inquiry Department, as heretofore, and will be answered immediately by mail), will furnish the texts. I'll talk over with you, through this column, the points that seem of most vital importance to the greatest number of our subscribers.

Thus we will develop a better understanding both of your needs and the way to fill them. For first of all we endeavor to render you a real Service.

* * *

Which is the Best Railroad Stock?

The railroads are coming into their own.

We cannot scan reports for the month of July without recalling the good old days before the reign of Teddicus Rooseveltus when the rails were allowed to have a dollar and a half to the good at a month's end. Increases like N. Y. Central's $5,000,000 gross and $1,500,000 net for July show the corner turned. It's the same story with the other big systems.

Ever stop to think how the Government's taking over the roads has shorn the puny, pin pricking, purse prodding politician of his power? Who would dare propose restrictive State or Federal legislation now?

Uncle Sam has done what the far-sighted and long-headed Edward H. Harriman wanted to do a decade ago. Only they wouldn't let him. In one of the investigations in which he was the chief target, he was asked: "Is it your purpose to unite the railroads of this country into one system?"

"I will if you'll let me," he replied.

There's a good time coming in the rails. For months back we've been telling subscribers to get aboard before the train starts. Meantime rail prices have crept up—no speculation, just investors picking 'em up slowly but steadily.

Transportation is a thing that is manufactured and sold. The past ten years have proved that there must be a profit in it or the railway plants will disintegrate, credit will be lost and the business ruined.

President Wilson saw the point last fall and the result was this: Cost of manufacturing was first raised by increasing wages so as to keep the help on the job. Then selling prices (freight and passenger rates), were advanced to cover the higher costs and show a profit besides.

Thus has a new era been opened for American Railroads.

In response to numerous queries as to which issues are best, I would say: There are several. Union Pacific, Southern Pacific, Atchison, Great Northern, Northern Pacific, Norfolk & Western—all good as wheat.

But if you ask me which is *the* best, I would unhesitatingly reply: "Southern Pacific, at anything under one hundred dollars a share."

* * *

U. S. Steel Common and its Dividends

Years ago, when the U. S. Leather Co. (predecessor of the Central Leather Co.), securities were traded in on the New York Stock Exchange, a well-to-do Brooklyn man bought a thousand shares of U. S. Leather preferred, which was then selling around 70, and paying 7% dividends. This netted him 10% on the investment. He then went to his bank, arranged for a long time loan at 5%, and deposited the 1,000 shares as collateral.

His income from the dividends on the 1,000 shares amounted to $7,000 per annum. The cost of carrying his loan at the bank was $3,500. His net income was $3,500 per annum and so far as I can recollect, it was never interrupted.

The risk he ran was that U. S. Leather would pass or reduce its preferred dividend. Had the dividend been reduced to 3½%, there would have been no profit in the transaction for him, and during the period of reduced dividend, his stock would have shrunk in market value and his bank would have called on him for additional collateral.

Too many people are beginning to regard the present position of U. S. Steel common as similar. Paying $17 per share per annum, it nets nearly 15% at present price (115). Money can be borrowed at 6%, making a net difference in favor of the borrower of 9%.

If there were some certainty as to how long the war would last, and the Government was not discouraging such operations, a certain amount of risk in this direction might be justified; but there are numerous other considerations. The Steel Corporation may in another year be called upon to pay taxes that would necessitate a reduction from the 17% dividend. The Government might require that all over $10 per share in earnings and dividends be devoted to the construction of new plants for making more guns and shells with which to swat the Hun.

The only *comparatively* safe way to benefit by these circumstances, if you have the cash, would be to buy Steel outright and consider that out of the $17 per share per annum you will regard only $5 per share as income and $12 per share as a sinking fund by which the original cost will be reduced. This would work out as follows, taking 115 as a starting point:

If war lasts	Cost reduced to	Balance 5% would yield
1 Year	103	4.8%
2 "	91	5.5
3 "	79	6.3
4 "	67	7.4

But the war may end in one, three or six months. No one knows when. It may end suddenly and it may be dragged out for years.

Act accordingly. Don't try to build a structure on an uncertain foundation.

* * *

One Class of Brokers

The kind of Service one hears most about in Wall Street is Brokerage Service. A day scarcely passes that we are not asked, "Is So-and-So a reliable house? If not, whom do you recommend?"

Very often So-and-So is not. We cannot say it in so many words, but

we can and do convey a strong intimation.

Brokers are generally classified according to Exchange membership, but there is another way, which has never, so far as I know, been touched upon in print, and that is by ascertaining whether or not the broker "carries his stocks."

An advertising man once came to me with tears in his eyes and said, "Mr. Wyckoff, why don't you accept Such and Such's ad. in the MAGAZINE OF WALL STREET?" (He mentioned the name of a house prominent on the Curb.)

"Because I don't like their methods," I replied. "I don't think they carry their stocks."

"Well, I want you to meet Mr. S. and talk it over with him. I'm handling his advertising and all the other papers accept his ads. Why shouldn't you?"

"If Mr. S. (it did not happen to be Stoneham) will show me certain books I'll soon tell you whether I'll accept his ads. or not," said I.

Over to the broker's office we went. Mr. Such, of Such & Such, was delighted to meet me." "Why sure! Glad to show you anything in the place," said he.

But when he learned just what I wanted to see, he knew I was onto my job and onto him. So he began to squirm and say he doubted whether the results of the advertising would pay for the trouble, etc., etc.

I bowed out, and on my way back to 42 Main Street of the village stopped in to see an old friend. When we had laughed over the embarrassment of Friend Such, my companion said, "It is not so much a question of whether he carries his stocks as to his ability to pay people when they want to draw their money down. I think they can and will pay."

I was in the office of a certain brokerage house one day when the stock market had just started on what proved to be a long upward swing and I overheard the following conversation between two of the juniors:

"Awful strong market, isn't it?"

"Yes, and the beauty of it is, none of them have any stocks!"

What did he mean? That the firm was playing against its customers. That when the clients of that house bought during the day say 2,000 long St. Paul and sold 1,000 of the same stock, the firm would sell 1,000 short for its own account. It would thus range itself on the opposite side of the market to its clients so that when the latter suffered a loss the house would profit.

In other words it was a bucket shop.

Now I do not agree with my friend who claimed: It's all right so long as they pay. It is not all right. The reason is that such a house cannot possibly work in the interests of its clients, because the house cannot aid the client in making a profit without working against its own pocket.

The advice of such a concern is not only worthless, it is positively dangerous. They hope you lose!

Compare such a firm with one which does carry its stocks. It makes its money through legitimate commissions —not by getting its people in bad and making what they lose. A firm with a proper regard for the ethics of the business may make errors of judgment, but its advice will be conscientious and given for the aid of the client—not to hasten his financial decease.

I am glad to say, however, that this kind of brokerage is the exception—not the rule. If Wall Street could weed out the comparatively few, the public would be better served and the Street as a whole would thereby have some of the odium removed.

* * *

About Your Inquiries

In a recent issue we gave some points on how inquiries should be made.

Many letters read: "Please give me your opinion of Bethlehem B," and perhaps one or two other securities. But what these subscribers really want is advice as to whether to buy, sell or hold.

If we are to furnish you with really intelligent counsel we should know, among other things, the following:

Are you thinking of buying for income only, for profit only, or both?

If for income, will you be dependent upon this for all or part of your living?

If for profit, are you prepared to risk a loss or having your money tied up?

Will you buy outright, on margin or part payment?

"If you now hold this security, what price did you pay?

Perhaps you are considering a short sale. If so, are you familiar with the use of stop orders and the danger of selling short without limiting your risk?

A knowledge of the above conditions, added to the character and position of the security you are inquiring about, will enable us to consider your problem from the proper angle.

Otherwise it's like asking us, "What is your opinion of Percy Smith?" We might say that Percy has nice, curly hair and holds his cigarette gracefully.

"But," you say "he wants to marry my daughter."

That's a different proposition, of course.

So give us more facts and we will endeavor to supply the kind of opinions and suggestions you really require.

THE POLICY OF THE RAILROAD ADMINISTRATION

In a report to the President made public recently Director General McAdoo tells an interesting story of the work of the United States Railroad Administration during the first seven months of its existence.

The American transportation system is briefly described as including a steam railway mileage (all tracks) of 397,014 miles, owned or controlled by 2,905 companies, employing 1,700,814 persons. Their property also comprised various boat and steamship lines engaged in coastwise transportation and navigating an inland waterways system which included some 57 canals, 3,057 miles in length as well as many thousand miles of navigable rivers, lakes, bays, sounds, and inlets. Of the 2,905 railway companies, 185 operated major systems, each of which had an annual operating revenue of $1,000,000 or more, 221 were switching or terminal companies, 1,434 were plant facility roads constructed primarily to serve some particular factory or industry, and 765 are what have come to be described as "short-line" railways, dependent upon one or more of the larger systems for through connections. It is explained that many of the smaller properties included in this description of the plexus of transportation which came under Mr. McAdoo's control January 1, 1918, have since been relinquished as not essential to the purposes that the President's proclamation and the enabling legislation had in view, but that it is the declared policy of the Railroad Administration to deal equitably with the relinquished properties in so far as it may have any relation to them.

The report concludes with a reference to Mr. McAdoo's declaration of policy, issued last June, in which he announced that he hoped "to humanize the railroads and negative the idea that corporations had no souls." It might, perhaps, have been more appropriate if his report to the President had been commenced rather than ended with this phrase, for the narrative reflects throughout an undiminished ardor for practical idealism in the management of the railways for the purposes for which they were taken over. These purposes, as enumerated by him, were—

First. The winning of the war.

Second. The service of the public at the lowest cost consistent with the payment of fair wages to the railroad employees and the maintenance of the transportation system under control of the Government as a self-supporting rather than a money-making agency.

Advantages of Railroad Electrification

What Last Winter's Severe Weather Taught—Views of a Westinghouse Expert—Big Economies Attained—Effect on Copper Demand

By WILLIAM H. EASTON

IN A recent interview, Secretary McAdoo is stated to have said that he favored the use of electricity for railroad operation as far as it could practicably be employed. Accustomed as we have become to revolutionizing our ideas and methods, there is still something startling about the thought that it may be necessary to make radical changes in our immense system of railways. But, as recent events have proved, when America decides that a thing should be done, that thing is as good as done, and Mr. McAdoo's utterance is unquestionably based on a broad comprehension of our present traffic situation and our pressing needs for the future.

Before the war, steam railroad electrification was progressing slowly but consistently. Each year saw some addition to the electrified mileage, and at length some 3000 miles throughout the country were being operated electrically. But with the increasing cost of materials and the impossibility of obtaining labor for anything except matters of immediate military importance, practically all construction work along this line ceased. However, it required war conditions, combined with one of the severest winters America ever experienced, to bring out clearly the advantages of electrification.

Of course, not even the most enthusiastic advocate of electrification has in mind the electrical operation of every mile of railroad in the United States. This is something that is hardly likely to take place within the present generation, even if the necessary capital for such an undertaking could be found. On the contrary the most ambitious proposal for a general electrification of the railroads contemplates at present only the electrical operation of certain sections, such as terminals, suburban lines, mountain divisions, tunnels, and lines that can readily utilize water power, leaving to steam the task of handling the greater part of the mileage for a long time to come.

Even such a limited plan, is however, vast enough in its scope, and to carry it out will keep the constructive forces of America busy for many years. But that it will be undertaken as soon as conditions permit, is now a matter of certainty; and it will therefore be of interest to review the reason why electrification is advantageous.

According to Mr. F. H. Shepard, Director of Heavy Traction for the Westinghouse Electric & Mfg. Co. and a recognized authority on electric railroad matters, electrification can help the nation and the railroads themselves in three ways:

1. By increasing the capacity of existing track and terminal facilities.
2. By decreasing the consumption of fuel; and
3. By conserving the labor necessary for operation and maintanence.

Let us examine these points in detail.

Increasing the Capacity of Existing Track and Terminal Facilities

A railroad that has become so congested that it is no longer able to handle efficiently all the traffic offered to it, is not only losing money for its stock holders but is placing an enormous burden upon the public. In times like these, such a condition may easily result in a national catastrophe. Hence it is of paramount importance from every point of view, to remove the cause of congestion, or far better, to anticipate it before it occurs.

Of course, it will rarely, if ever, happen that a railroad will become uniformly congested along its entire route. The trouble will invariably ap-

pear at some point at which the flow of traffic is restricted, such as at a terminal, at divisions crossing mountains where the speed of the trains is slow, at a tunnel, or some similiar place. The remedy for congestion must therefore be applied at this "neck of the bottle" or "throat", as such a point is graphically called.

There are several ways, depending on circumstances, by which congestion can be permanently relieved:

1. More tracks can be added at the throat.
2. Grades can be lowered, curves straightened out, and the right-of-way revised in other ways.
3. Heavier trains can be hauled at greater speed through the throat.

Of these alternatives, the first is evidently expensive under the most favorable circumstances, and frequently the cost would be so high as to be prohibitive, as, for example, when the throat lies in a long tunnel, or between two city streets, or between a wall of rock on one side and a river on the other.

The second is also a costly process; at the best it is merely a palliative, and often it is not applicable at all.

The third would therefore seem in general to be the most desirable method and is, in fact, the one first employed. But when, as is the case today with several of our most important railroads, the maximum number of trains are already being operated, these trains are being hauled by the largest and most powerful steam locomotives obtainable, and the cost of the other alternatives is prohibitive, what is to be done?

The answer is, electrification. And for the simple reason that electric locomotives can be built with greater capacity than steam locomotives. They can, therefore, haul longer trains at higher speeds. The maximum power of a steam locomotive is about 3000 H.P., but, there are in operation today a number of electric locomotives of more than 4000 H.P.; the Pennsylvania Railroad has already built an electric which can develop 7000 H.P.; and it is easily possible to apply 20,000 H.P. or even more to a train, if the roadbed and equipment are designed to permit the use of so much power.

How these large electric locomotives benefit a railroad is best shown by a practical illustration.

Relieving the Norfolk & Western R. R.

The Norfolk & Western Railroad runs through the rich Pocahontas coal regions of West Virginia and its service is essential to the welfare of this district. For many years it kept pace with the constantly increasing demands on its facilities, but the time was finally in sight when its full capacity would be reached, and it would be physically unable to handle any additional coal. This situation promised to be not only exceedingly bad for the railroad, but worse for both the producers and the consumers of the coal.

An analysis of the situation showed that the difficulty was due to a section about 30 miles long between Vivian and Bluefield, where there is a very steep grade against the traffic and a long tunnel. Elsewhere the long coal trains moved freely enough, but here three of the largest Mallett steam locomotives on each train could not move the traffic more rapidly than 7 miles an hour. In consequence congestion occured at this point and set the limit of the capacity of the entire system for the important east bound movement.

To solve this problem, this difficult section was electrified, and now huge Baldwin-Westinghouse electric locomotives rush the trains up the mountain side at 14 miles an hour, and in this way the capacity of the entire system has been more than doubled.

Why Broad St. Station was Electrified

Broad St. Station of the Pennsylvania Railroad, at Philadelphia, offers another illustration of the ability of electricity to increase the capacity of existing equipment. This station, one of the busiest in the country, had become so congested that relief of some kind was essential. The trouble here was due to the fact that the tracks

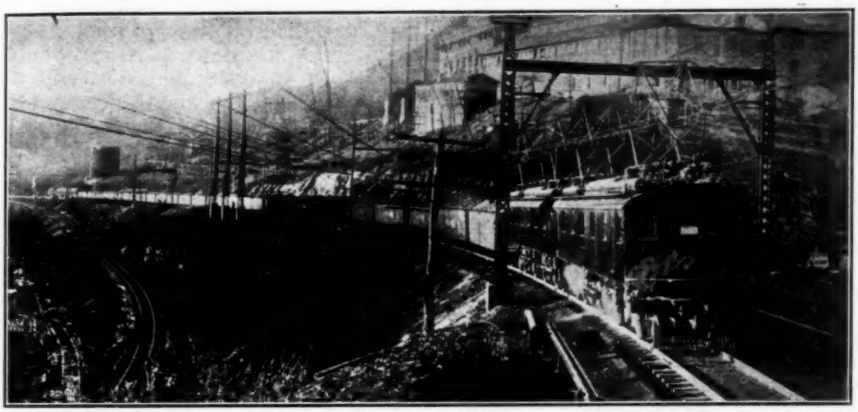
just outside the station had to be used nine times in the process of changing an incoming steam train into an outgoing one.

It was impossible to increase the number of tracks, for the right-of-way already occupied the full space between two important city streets, but electricity offered a way out.

Electric motor trains, being alike at front and rear, can run in, discharge their passengers, take on a new load, and run out, thus using the outside tracks but twice. Hence by electrifying the surburban lines using Broad St Station, the tangle of moving cars has been eliminated, and the station has ample capacity to handle the traffic for many years to come.

Electrification also expedites traffic in other ways. Electric locomotives are not affected by cold weather, which cripple steam locomotives; they produce no smoke to cause delays in tunnels; they require less attention, when off duty, than do steam locomotives; and as proved by statistics, they are more reliable and lose less time in the repair shop. In addition, they are ready to start at any time, need no fuel or water supplies, accelerate very rapidly, and have great overload capacity. All of these factors assist in keeping the trains moving especially at critical times.

It is almost impossible to overestimate the importance of this ability on the part of electricity to increase the capacity of our present railroad facilities. The United States is a great country and its rate of development exceeds anything known to history. The difficulties experienced last winter are but a warning of what is going to happen in the future when the industries of the South become well developed, when each acre of the great agricultural districts begins to produce crops that are comparable to those of Europe, and when the population of the cities of the West begins to approximate those of the East.



Electric Locomotive Hauling Long Coal Train on Norfolk & Western

Decreasing the Consumption of Fuel

The second advantage of electrification, is its ability to save fuel. The facts that our supplies of coal and oil are limited, and that the responsibility of conserving them rests absolutely on this generation, are too well known to require discussion. No greater step can be taken in the direction of fuel conservation than the electrification of the railroads, because our railroads are consuming 150,000,000 tons of coal every year, or nearly one-fourth of our entire production so that the saving of even a fraction of this amount means a substantial decrease in the total consumption.

The use of water power for railroad operation is an obvious means to this end. The Chicago, Milwaukee, and St. Paul Railroad, which operates elec-

trically 440 miles of road over the Continental Divide, has announced that it saves 500,000 tons of coal and 250,000 barrels of fuel oil a year. This is over 1000 tons of coal per mile per year, and figuring roughly for the entire United States, every mile of railroad operated by water power means a saving of over 500 tons of coal per year.

That there are ample opportunities to effect such savings is shown by the fact that there is today more than enough water power going to waste in the United States—over 50,000,000 horse-power, in fact—to operate every one of our railroads. However, this situation is now clearly recognized and only unpardonable economic negligence can prevent the utilization of our water power after the war is over

But for geographical reasons it is impossible to employ water power for all of our railroads, especially those east of Chicago and north of Richmond. Electrification, however, can also help here.

Saving Coal With Steam Power

The average steam locomotive is a most inefficient user of coal. It not only burns coal wastefully when running, but is also responsible for heavy stand-by losses. The modern electrical power station, on the other hand, is the most efficient burner of coal possible for man to construct, and as a matter of fact will operate a given railroad with one-half the coal needed by locomotives.

Therefore, if all the railroads in the United States were electrically operated, water power being used where ever possible, undoubtedly 100,000,000 tons of coal and a large amount of fuel oil could be saved each year.

Incidentl,, since a considerable proportion of the railroads tonnage is coal for their own use, the reduction of their coal consumption would in itself save considerable coal and would also free a very important part of their facilities for revenue purposes.

The Conservation of Labor

The question of man-power is today the most vital one before the world. It will continue to be important after the war, and in the long run will be the factor that determines the economic and political status of each nation. Anything that conserves man-power, therefore, increases national prosperity. Electric operation of the railroads promotes the efficiency of human labor in several ways.

By decreasing the fuel consumption, it releases for other purposes an army of miners and handlers of fuel.

Since electricity can haul larger trains at higher speeds than steam, a given number of men can handle a larger volume of traffic on an electrified road than on a steam road.

Electric locomotives require much less labor than steam locomotives for maintenance. On the Chicago, Milwaukee, and St. Paul Railroad, steam locomotives are given attention after every 100 miles of run; whereas electrics are only placed in the round house after 500 miles; and moreover; owing to the simple construction of the electrics, repairs of even major importance can be made within a few hours, in striking contrast to the time required to repair a steam locomotive. A proof of this lies in the last report of the Norfolk and Western Railroad in which it is shown that the cost of repairs, retirements and depreciation, for handling 1000 tons one mile, is 32 cents for steam locomotives and 10 cents for electrics.

Finally, because electric locomotives are independent of fires, steam pressure, fuel, water, and ashes, they secure a marked economy of yard and terminal labor.

The Cost of Electrification

It is, however, not enough to establish the usefulness of electric operation, for the question of the cost of installation immediately arises. Let us briefly consider this phase of the subject.

The cost of electrifying a railroad is made up of five main items: the overhead power line, the locomotives, the substations (for transforming the high-voltage power received from the power house into power suitable for use by the locomotives), and the power house. Naturally, this cost will vary widely

with conditions. For example, the electrification of the Chicago, Milwaukee, and St. Paul Railroad, which carries light traffic, cost about $30,000 a mile exclusive of the power house, current hydro-electric system. On the other hand, the electrification of the Norfolk and Western Railroad, a heavy traffic road, cost about $100,000 a mile, including the power plant. These figures can be taken as minimum and maximum, respectively, although specific instances of both higher and lower costs could be easily pointed out. Taking average railroad conditions, however, the cost of electrifying a mile of track is estimated at $50,000, including the cost of the power house and using pre-war prices.

It would not, however, be generally necessary to charge the cost of the power house against the cost of electrification. One of the important advantages of a comprehensive railroad electrification is that the nation would be covered with a huge electrical system which would furnish power for all sorts of purposes, such as mining, smelting, manufacturing, electro-chemical processes, irrigation, agriculture, and domestic use. Thus the power house could ordinarily carry its own capitalization independent of the railroad. This would reduce the average cost of electrification to about $40,000 a mile. If the work were done today, this figure would have to be doubled; and what it will be in the future, it is impossible to fortell, although it will doubtless be a long time before prices settled back again to pre-war conditions.

Electrification is therefore an expensive matter, but the expense is justified from the railroads' point of view by the fact that when congestion does occur, the burden of electrifiying is less than that of handling the excess traffic, or of remedying the situation in any other way; while from the point of view of the public, the breaking down of a railroad's service must be prevented by any possible means. Then too, the national advantages of fuel and labor conservation must be considered.

How the railroads are going to secure the necessary capital to undertake a general electrification is at present unsolved problem. But since the people of the United States will be the chief benefactors from electrification, it seems logical to place the cost upon them. It is therefore possible that the Government may advance the necessary funds, to be paid back gradually by the railroads from the resulting savings.

The Effect on the Copper Situation

What effect will a general electrification if the railroads have upon the demand for copper?

A conservative estimate of the amount of copper required per mile of railroad track electrified is 20,000 lbs., including trolley wires, feeder cables, and the windings of the motors, generators, transformers, etc. Figuring roughly the total single track mileage to be electrified in the United States at 250,000, over five billion pounds of copper will be needed to complete the work. This is a large amount but since its consumption would be spread over a period of at least fifty years (and probably longer), the average amount of copper needed per year for this purpose would be about one hundred million pounds. The domestic demand for copper for 1919 is estimated at one and a half billion pounds, so that railroad electrification in itself will have but little effect on the copper market.

However, as previously indicated, railroad electrification will not be undertaken as an individual development; it will be merely a part of a great movement that will have as its aim the electrification of the entire nation. The railroad lines will form the basis of this project and will supply the primary strands of the net work that will cover the country, but this net work lines will radiate in every direction, supplying power for doing a very large proportion of all our work, industrial, mining, metallurgical, agricultural, and domestic.

In other words the next fifty years is going to see an enormous increase in the use of electricity and, since there is

no known substitute for copper in electrical apparatus, there will be a corresponding increase in the consumption of copper. We are today standing only at the beginning of this movement so that demand for copper fifty years from now can be no more calculated from past statistics than could the present consumption of coal be foretold from the figures of 1840. The phenominal increase in the use of Portland Cement within the past forty years is another parallel case.

It will therefore undoubtedly be necessary to give careful consideration to the world's ability to produce the necessary amounts of this most important metal. Certainly all American sources will be worked to the limit and mines now in backward or in civilized countries must be opened and brought as soon as possible to an efficient productive condition. Fortunately copper is not like coal, which is destroyed by use, and our actual stocks of copper can be used over and over again (provided another world war does not involve the complete loss of vast quantities). But that an insufficient supply of copper may retard the electrification program is a possibility that must not be ignored.

The Great Steel Tax Mystery

SECRETS OF INVESTED CAPITAL—Part 2

Various Phases of the U. S. Steel Tax Situation—Other Steel and Equipment Stocks—Excessive and Insufficient Tax Reserves

By BENJAMIN GRAHAM

IN my previous article on this subject I pointed out that by deriving the Invested Capital on which a company's Tax Reserve has been based, we might reach one of two opposite conclusions. Assuming that the Tax Reserve is correct as reported, we can determine absolutely what is the tangible capital invested and therefore the asset value of the common stock. But on the other hand, it frequently happens that the capital indicated by the Tax Reserve is larger or smaller than the figure established by independent and authentic information. In such cases it is evident that the War Tax has been under—or overstated, and we are accordingly led to correct the company's Income Account, decreasing or increasing the percentage reported as earned upon the stock.

U. S. Steel Corporation

In a discussion of this kind the Steel Corporation must inevitably claim considerable attention. A scrupulous author hesitates to add to the already overflowing sea of literature on this single enterprise, but the importance of the subject and the novelty of some of the conclusions to be advanced must excuse us for recurring to this sadly threadbare theme.

The Steel War Tax has always been a mystery to those who understood its implications. That the figure was enormous was not surprising—the perplexity was caused by the extremely high *percentage* borne by the Tax Reserve to the Earnings. The Corporation reported net for preferred dividends of $224,000,000 after deducting $233,000,000 taxes. The latter apparently claimed *over* 50% of the net income—an unparalleled proportion, contrasting with 33% for Republic Iron and Steel and approached only by companies (e.g. Midvale) whose Invested Capital was reduced by the absence of preferred stocks.

Could Steel's actual capital be so small compared with its earnings, that it must

turn over to the Government a much larger percentage of its profits than any similar company? Our computation showed that using the above figures for income and taxes, the capital indicated would be only $462,000,000 against a book figure of nearly $1,400,000,000. This discrepancy was so striking as to prove conclusively that either the tax has been greatly overstated or earnings understated—or both.

A new factor has been injected into the situation by the recent publication of Secretary McAdoo's testimony on August 14th last before the House Committee on Ways and Means. Here he analyzes a number of actual returns made to the Treasury Department by large Corporations, whose names are replaced by letters. For the first of these, Corporation A, he gives the following data:

Invested Capital for 1917	**$1,427,233,403**
Invested Capital for Pre-War Period	**1,132,459,896**
Net Income, 1917	**568,964,090**
Excess Profits Tax for 1917 ..	**173,504,430**

There is only one enterprise in this country—or in the world—to which the above figures could apply. Since this is a real and not a fictitious example, it is undeniably a transcription of the tax return of the U. S. Steel Corporation.

We immediately remark that Steel paid a smaller war tax than it reserved. Adding in $23,728,000 for Income Tax, as easily determined, the total levy is "only" $197,230,000—$36,234,000, or $7 per share, less than the published figure.

There is nothing astonishing about this discovery since we have pointed out that the reserve set up in the report was inexplicably large. The really extraordinary aspect of Mr. McAdoo's testimony is found in the statement of Invested Capital and Net Earnings. The accepted figure of Steel's 1917 earnings was $457,684,000 subject to tax; but according to the Treasury Department taxable earnings were fully $111,000,000, or $22 per share, more. Again the Capital, Surplus and Reserves at the beginning of 1917, as shown in the balance sheet, totalled about $1,360,000,000, which was generally held to contain somewhere between $500,000,000 and $700,000,000 of good will (of which not more than $175,000,000 could be included in Invested Capital because of the 20% limitation). But Secretary McAdoo here places the Invested Capital at $1,427,000,000, actually a larger figure than that claimed by the balance sheet.

Here are two mysteries indeed, and important ones—because if we accept the apparent significance of the Treasury's data, we should have Steel earning $105 before taxes and *over* $68 *per share after taxes*—compared with the recognized figure of $39.15. Not only that, but we should have an asset value of $1,067,000,000 behind the common—*or more than* $200 *per share at the beginning of* 1917.

A careful study of all the ramifications of the War Revenue Act as applied to U. S. Steel results in the following possible explanation of the wide divergence between the figures given by the Treasury and by the annual report. The Steel Corporation is a holding company, its property being the securities of its subsidiaries, and its income the dividends and interest received from them. According to Article 78 of Regulation 71, construing the Excess Profits Tax, affiliated companies may, and sometimes must, make a joint return covering their combined capital and income. If this had been done by all Steel *subsidiaries* together—but excluding the Corporation itself as merely the holding company—the large net income reported to the Treasury would be explained as suggested in Table I.

The close correspondence of this total with the Treasury figures lends plausibility to our explanation. It is strange that the $75,000,000 deducted from earnings for reserves has escaped general attention. These allowances—equivalent to $15 per share—represent in principle an appropriation of *surplus* against possible eventualities, and as such are not recognized by the Treasury as charges against the year's operations—although they are thus treated by the Corporation.

There would seem to be a disadvantage in the subsidiaries' making the return instead of the Corporation itself as a unit, because by doing the former, the interest on the Steel Corporation's bonds

cannot be deducted from earnings. But this is more than compensated for by the fact that the assets represented by these bonds can be included in Invested Capital, since the bonds are not the liability of the subsidiaries. This fact would account for the large Invested Capital revealed by the Treasury Department. In Table II we show how the latter figure might be reconciled with the Corporation's own statement, as modified by prevalent notions as to the original good-will included therein.

Of course, in this table the good-will has been arbitrarily valued so as to make the final figures correspond—but it is sufficiently close to generally accepted ideas (based on the investigation of the Commissioner of Corporations) to make the above analysis worth considering as a possible solution of the great Steel Tax Mystery. Incidentally we would point out that after subtracting the $150,000,000 good-will allowed, and the $260,000,000 *net* for U. S. Steel bonds proper, we have left a tangible Invested Capital of $1,017,000,000 as of December 31, 1916. This is equivalent to an asset value for Steel Common of about $140 per share at the beginning of this year (after restoring the $75,000,000 reserves written off earnings in 1917).

If we finally pass on to the other steel issues, we immediately strike another puzzle—the relation of Lackawanna's War Tax to Republic Iron and Steel. Notes these figures.

	Lackawanna	Republic
Book Capital	**$52,912,000**	**$70,945,000**
Taxable Income	**26,147,000**	**24,454,000**
Tax Reserve	**10,040,000**	**8,597,000**

Since Lackawanna's book capital is so much smaller—due to the absence of preferred stock—it would be thought to pay a very much larger percentage of its earnings in taxes than does Republic. On the basis of book capitals, therefore, we should expect either a smaller tax for Republic or a larger tax for Lackawanna. Here is an opportunity to bring our algebraic formulas into action. Sure enough, the Tax Reserves indicate an Invested Capital of $61,200,000 for Republic and $57,370,000 for Lackawanna—in one case *less,* in the other *more* than the balance sheet figures. It will suprise no one to learn that Republic's tangible investment is less than its annual report shows, but no one would have supposed (or will now believe) that Lackawanna's property account *understates* its real assets. We must look further into this question.

Our figure of $61,200,000 for Republic's Invested Capital would include a good-will allowance of about $10,400,000, bringing the tangible capital down to $50,800,000. This is by no means a bad showing, since it gives the common an asset value of $94 at the end of 1916, and fully $142 at the beginning of the current year.

At this point Mr. McAdoo's testimony again intervenes. In the list of twenty-

TABLE I

DEVIATION OF THE TREASURY FIGURES FOR U. S. STEEL'S 1917 EARNINGS.

Net before Taxes, as stated in the report		**$457,700,000**
ADD:		
Interest and premium on Corporation's bonds (not a charge against subsidiaries' earnings)		**22,100,000**
Profits of subs. on sales to other subs. of material still held by latter—excluded from Corporation's Income Account		**14,100,000**
Increase in Contingent and other Reserves	**$19,300,000**	
Less charged to Surplus	**4,000,000**	
		$15,300,000
Reserve for excess of cost over pre-war value— Inventories		**29,800,000**
Reserve for excess of cost over pre-war value— Plant		**29,800,000**
(Note: Last three items have been charged to Income, but are not allowed as Deductions by Treasury Dept.)		
Total Earnings as Reported to Treasury Dept		**$568,800,000**

two returns presented, (Company "C") has been quite generally identified with Republic Iron & Steel. Here are the figures:

C "Company"

Invested Capital	**$70,827,000**	
Taxable Income 1917	**24,124,000**	
Excess Profits Tax...	**6,258,000**	

* * * * *

Republic

Invested Capital	**$70,945,000**	**(Book Figures)**
Taxable Income 1917.	**24,454,000**	
Excess Profits Tax...	**7,574,000**	**(Indicated by Reserve)**

If ("Company C") is really Republic Iron & Steel in disguise then in its report to the Collector it has evidently used its full book capital and surplus, without any deduction for intangible assets. This basis of calculation naturally results in a smaller tax ($1,316,000 less) than the reserve set up in the report, which has been shown to be computed on a capital of $61,200,000. Was Republic trying "to get away with something" in its statement to the Treasury? Dr. Adams, discussing these figures in general, makes several cryptic references to returns based on excessive capitalization. After weighing all the aspects of the case we are led to the peculiar—but not altogether impossible—hypothesis that Republic has tried to hold down its tax *return* by reporting as large a capital as possible; but in its statement to stockholders it has followed the conservative plan of *reserving* the maximum amount that might be required, if the Treasury rejected its book figures for Invested Capital.

So much for Republic. The Lackawanna case is not so complicated. It appears to furnish an obvious example of *understatement* of tax requirements. On the basis of the full book figure for Invested Capital, the resulting Income and Profits Taxes would be $10,540,000—or just $500,000 above the reported reserve. This difference would not have much importance, being a matter of only $1.45 per share. But if we were to assume the same amount of intangible assets as indicated by the Republic reserve—about $20,000,000—then after including $7,000,000 of this for permitted good-will, we should have an Invested Capital of but $40,000,000. On this basis the Profits Tax would amount to no less than $11,050,000, and the total tax to $11,950,000 —reducing the reported 1917 earnings by $5.45 per share and bringing them down to $40.45, or $11.45 below Republic's record. We point out incidentally that the Invested Capital indicated by Lackawanna's Tax Reserve would give the stock a tangible value on January 1, 1918, of $195; the book value is $185; and the value, assuming $20,000,000 good-will, would be $126 per share.

Lackawanna is not the only company which has evidently understated its tax requirements. This distinction is shared by Baldwin—the smallness of whose tax reserve appears to have escaped general notice. Its estimate of a $1,750,000 tax on over $10,000,000 of earnings implies an Invested Capital of fully $60,000,000. But by writing off $15,800,000 for patents and good-will last year, Baldwin admitted that its tangible investment at the beginning of 1917 was no more than $33,000,000, and allowing $8,000,000 for permitted good-will its Invested Capital would have been only $41,000,000. To determine the proper figure for Baldwin's tax reserve it is advisable to consider the joint report of this company and its subsidiary, the Standard Steel Works. Our calculation shows a total tax requirement of $3,930,000, whereas the *reserves* of the two companies add up to only $2,517,000—a discrepancy of $1,413,000 or over $7 per share for the common. Counting in the assets of Standard Steel Works, Baldwin common has now a tangible value of about $123 per share.

It is difficult to derive dependable information from the American Locomotive tax return,—first, because this article is written just as the annual report goes to press, so that we have available only the statement for the last half of 1917. Secondly, the tax reserve for this period includes an unstated amount for Canadian duties, which makes it impossible to separate the U. S. War tax. If we accept a published estimate that Canadian taxes accounted for about one-quarter of total we should then derive an intangible asset item of about $25,000,000—the

par amount of the common stock. Accumulated surplus would now give the common an asset value of around $87 per share.

American Steel Foundries is unique among the equipments in that its Tax Reserve indicates an Invested Capital almost identical with the balance sheet figures. The absence of good-will here in order to be conservative, said he, and not to lead the stockholders to clamor for unduly large dividends. If for argument's sake, we place the actual good-will item at $13,500,000 (the amount of common), the tax would be reduced by $835,000 or over $6 per share.

In leaving this subject, we would point out that our conclusions are advanced

TABLE II

DEVIATION OF THE TREASURY FIGURES FOR U. S. STEEL'S INVESTED CAPITAL, DEC. 31, 1916.

Total Assets shown in Balance Sheet....................		$2,083,000,000
LESS:		
Current Liabilities	$ 92,900,000	
Obligations of Subs. owned by Public......................	174,000,000	
Carnegie bonds owned by Corporation	159,500,000	426,400,000
Indicated Invested Capital of Subsidaries......................		$1,656,600,000
ADD:		
Surplus of Subs. on sales to other Subs. not yet included in Corporation's Surplus		35,900,000
Written off Property Account and charged to Surplus 1901-8........		163,700,000
Written off Inventory and charged to Income 1916..................		15,600,000
		$1,871,800,000
Less: Original Good Will included in Assets......................est.		594,100,000
Tangible Invested Capital of Subsidaries..........................		1,277,700,000
Add: 20% of Stocks allowed for Good-Will......................sur.		150,000,000
Invested Capital—Treasury Department Figure................		$1,427,700,000

might seem unlikely at first, but when it is recalled that the readjustment in 1908 reduced the capitalization by $15,000,000, the approximate correctness of our results is again substantiated by external facts. The tangible value of Steel Foundries on January 1st last appears to have been well over $170 per share.

Railway Steel Springs—which has recently shared with Steel Foundries in a belated recognition of intrinsic value—provides an interesting example of overstated taxes. The reserve here is $3,500,000 against earnings of $8,808,000; which results in a capital of only $18,000,000, against a book figure of $34,000,000. Allowing for permitted good-will in the former amount, the intangible assets in Railway's balance sheet should then total $21,500,000—all the common and over half the preferred. When the writer called this fact to the attention of an official of the company, the latter admitted that the Tax Reserve was overstated—

not as positive statements of fact, but as tentative estimates based on available data. We will indeed vouch for the sufficient accuracy of our results *provided* the companies' figures from which we started are themselves accurate. What we have said in effect is that *if* X Corporation has really earned the income and paid the tax it has reported, then it must necessarily have used our specified figure for Invested Capital—and the present tangible value of its common stock must consequently be so much per share. Some of our figures, therefore, may have no value whatever, merely because the company in question has made inaccurate or misleading reports. But we do claim sufficient reliability for our results in general to prove that that market value of American industrials no longer exceeds their tangible assets; and that whatever burdens they may have to bear in the future, over capitalization will not be one of them.

Market Action During Liberty Loans

How Prices Moved During the Three Liberty Loan Campaigns—Outlook for Rising Market In Next Loan Period

WILL there be a rising, stationary or declining market during the period of the forthcoming Liberty Loan? It is always dangerous to attempt to establish in advance what the market will do, in fact it is impossible to say with certainty how stocks will act in the future. But oftentimes one may learn from the past, and in the case of the forthcoming loan one can deduce from past market action what *may* be the future course of prices. Hence this study of the movement of stock prices, before, during and after the period of the three loans which this Government has put out.

First Liberty Loan

The First Liberty Loan Campaign began May 15, 1917, and the books closed June 15, 1917. In April the course of prices on the Stock Exchange was irregular, but with a distinct tendency toward a lower level. The Congressional Resolution declaring the existence of a State of War became effective on Good Friday, April 6th. Steel declined from 118¾ on April 3rd to 108⅝ on April 10th. On the publication of the steel reports on April 24th, the stock rallied to 117¾. From that point steel declined again until it reached 112½ on May 9th just prior to the opening of the Liberty Loan Campaign.

During the campaign there was a bull market. Trading was on in a large scale, several days recording transactions in excess of 1,000,000 shares. Steel Common made a new high record reaching 136⅝ May 31st.

Second Liberty Loan

The Second Liberty Loan started on October 1st and ended October 27th. In September preceding the Loan the Stock Market was weak and depressed throughout almost the whole month, the decline reaching large proportions. A knowledge that the Government would have to engage in financing on a new scale for a long time to come and the high rates for money on call were factors in depressing the market. There was a recovery from the extreme low figures of the month just before the campaign opened. Steel, which opened the month at 111, sold down to 103¾ on September 25th.

During the Liberty Loan Campaign still lower prices were recorded. Exceedingly gloomy views prevailed and liquidation on an extensive scale occurred. There was talk of closing the Exchange. The large income and excess war profits were the moving causes in the decline. In the middle of the campaign the announcement by the Interstate Commerce Commission that the railroads would be allowed to renew their application for increased freight rates caused a temporary recovery.

U. S. Steel, which opened the campaign on October 1st at 111¼, sold down to 99⅛ on October 5th and closed at 100¾ at the end of the campaign.

Third Liberty Loan

On March 1st, Secretary McAdoo announced that the Third Liberty Loan Campaign would start April 6th. The month of March preceding this Campaign started out by a display of considerable strength in the early part of the month both in railroad and industrial shares. On March 21st the great drive of the Germans started and their initial successes proved a complete surprise to the market resulting in a substantial break in prices. The remainder of the month was marked by a more or less general recovery throughout the list.

In April during the Liberty Loan Campaign the Stock Market was on a very restricted scale and the course of prices more or less irregular. Steel

shares all through the month were among the strongest on the industrial list.

Whereas, steel was at 86½ on March 25th it rose to 96⅜ on April 22nd and as high for the month during the Liberty Loan Campaign.

Summary

A review of the course of the stock market preceding each of the three Liberty Loans shows that substantial decline occurred although in each case there was a recovery just prior to the opening of the Liberty Loan Campaign. The First Liberty Loan Campaign was marked by a very great rise in prices when steel touched its highest price in history. The Second Campaign was marked by a drop in price verging upon panic. The Third Campaign was marked by a fairly strong market, although inclined to dullness.

It appears that the market usually declines prior to a Liberty Loan Campaign probably through liquidation in preparation to take the loan. It appears that a rising market is in order during the campaign, although it might be a very dull market. On the other hand it would appear that any special developments of military importance or radical legislation would completely outweigh these general tendencies.

Important Financial Forthcoming Events

Sept. 17
American Telephone & Telegraph dividend meeting.
Farm Mortgage Banker's Convention at Kansas City, Mo.
Pullman Company special meeting.

Sept. 18
Reading Company dividend meeting.

Sept. 20
Great Northern dividend meeting.

Sept. 21
American Can $3,000,000 serial notes mature.

Sept. 23
American Bankers' Association convention in Chicago.

Sept. 24
Anaconda dividend meetings.
Central Leather dividend meeting.
General Motors dividend meeting.

Sept. 25
Northern Pacific dividend meeting.
Pittsburg Coal dividend meeting.
Westinghouse Electric dividend meeting.

Sept. 26
Inspiration Copper dividend meeting.

Sept. 28
Liberty Loan (4th) campaign begins.
United States Smelting & Refining dividend meeting.

Sept. 30
Capital stock tax returns must be filed.

Oct. 1
Atchison dividend meeting.
Baltimore & Ohio $10,500,000 notes mature.
Cotton price differentials in effect until this date.

Oct. 2
Midvale Steel dividend meeting.

Oct. 3
United States Rubber dividend meeting.

Oct. 7
Miami Copper dividend meeting.

Oct. 8
United States Supreme Court reconvenes.

Oct. 9
Southern Pacific special meeting.
Illinois Central dividend meeting.
United Cigar Stores dividend meeting.

Oct. 15
American Locomotive annual meeting.

Oct. 19
Liberty Loan (4th) campaign ends.

Oct. 21
American Can $3,000,000 serial notes mature.

Oct. 23
Norfolk and Western dividend meeting.
Pennsylvania dividend meeting.
Pressed Steel Car dividend meeting.

Oct. 29.
United States Steel dividend meeting and quarterly earnings.

Nov. 1
26c. copper agreement expires.

Nov. 9
Last day for converting previous issues of Liberty Loans.

Nov. 18
Investment Bankers Annual Convention at St. Louis, Mo.

Nov. 21
American Can $3,000,000 serial notes mature.

Dec. 1
United States Rubber Co. collateral trust $10,538,000, General Rubber $9,000,000 debentures and Morgan & Wright $3,268,000 debentures mature.

Passing of the Sub-Treasury

How the Federal Reserve Banks Are Supplanting It—Old System Clumsy and Wasteful—Entire Sub-Treasury May Be Eliminated After the War

By H. McQUILLAN

LEGISLATION and the growing power of the Federal Reserve system are combining to force out of existence the Sub-Treasury. The provision in the Executive, Legislative, and Judicial Appropriation Bill for the abolition of the office of Assistant Treasurer of the United States at each of the nine Sub-Treasuries, was the first step toward the final merging of the entire Sub-Treasury system in the Federal Reserve Banks. The question has been under consideration at Washington for some time, but it was felt that no action of so drastic a character should be taken until after the war was over. The Sub-Treasuries are supposed to be performing a real service at present, supplementing the work of the main Treasury at Washington in connection with the Government's financing of the war. Consequently the amendment to the so-called Sundry Appropriation Bill was lost. This is recognized as a temporary check, in deference to the wishes of McAdoo who naturally wants as little disturbance in financial fields as possible.

The so-called Independent Treasury system was created in 1846 as the result of the Government's unfortunate experience with the United States Bank and state institutions, which up to this time acted as depositories for its funds. The system contemplated an absolute divorce between the Government's finances and the banks of the country. But, owing to periodic stringencies in the money market caused by the concentration of vast amounts of cash in the Treasury vaults, the Government was compelled more and more to seek the co-operation of the banks. Under the Federal Reserve system, by which the reserve banks likewise became government depositories and fiscal agents, the operation of the Independent Treasury system has been greatly curtailed. In fact, having assumed a share of the duties of the Sub-Treasuries, the Reserve Banks are in a fair way to monopolize government collections.

The regular business of the Sub-Treasuries in general, is to carry on the Government's money transactions with the people. These transactions include the payment of checks issued in settlement of government bond interest, pension disbursements, redemption of mutilated paper money, refunding and redemption of government bonds. Besides, the Sub-treasuries received the collections from the post-offices, custom houses and are of great assistance in telegraphing money from one center to another. Gold received and deposited at one Sub-Treasury can be credited by telegraph and collected from another Sub-Treasury. London often pays its debts in New York with Australian gold, imported at San Francisco through this system.

Clumsy and Wasteful

The present system has been characterized as clumsy and wasteful. Practically all the banking reforms that have been proposed in recent years have contemplated its abolition or revision. Not only has it failed to furnish the government with modern and economical fiscal machinery, but at times it has interfered with the ordinary and necessary operations of business and credit. In the past, its operations have locked up great quan-

tities of money at seasons of the year when the banks and business needed it most, and released money when business was sluggish and the banks already had large supplies of idle funds. The system has been out of harmony with the practical business needs of the country.

To meet the agricultural and industrial needs of the West and South, at some periods of the year, the money from New York flows back to the little country banks. After the harvest is over and the hands paid, the money begins to accumulate again in the local banks. Then the money is shipped back again to New York. In the past this alternating ebb and flow of money, with its resulting scarcity of funds at one season and abundance at the other, due to defects in our banking system, has caused great disturbance in the money market, especially in Eastern centers. This is what happens. In the autumn, when the banks of the interior begin to draw from their New York balances the New York banks are obliged to curtail their loans and call in others. This affects not only the stock market, but also eastern business which at that season requires not less but more loan accommodations. On the other hand, the flow of money back to New York at the beginning of the year, causes large surplus reserves to accumulate, brings low rates for money, and an expansion of loans for speculative purposes.

Facade of the New York Sub-Treasury

This perhaps cannot be remedied, but the situation has been aggravated by the operations of the Treasury in its clumsy way of making collections and disbursements. At certain seasons of the year, government receipts from customs and internal revenues are heavy and large amounts are withdrawn from trade, involving the lowering of bank reserves, curtailing of loans, and frequently causing what is known as a season of "tight money." The main point to make here is that the custom house receipts and the internal revenue collectons are heaviest at the same time of the year that loans are needed for industrial and agricultural backing. The system of the Sub-Treasuries is unwieldy, because the large sums of cash, thus accumulated in the vault, are held so long that by the time they are released, the need for funds is no longer pressing.

For this reason, since the formation of the Federal Reserve system, agitation for the discontinuance of the Treasury branches has grown more pronounced, and two years ago Congress requested the Secretary of the Treasury to report on the advisibility of continuing the Sub-Treasuries. The answer at that time was against their abolition. Congress then by the Act of March, 1917, referred the matter to the United States Bureau of Efficiency at Washington, directing it to report "what part of the work of the Sub-Treasuries can be transferred to other offices of the Government banks of the Federal Reserve system or Farm Loan Banks."

January last the Bureau made the following report in which they made three recommendations. The abolition and immediate suspension of the Sub-Treasuries in Cincinnati, Baltimore, and Philadelphia was advocated; likewise the Bureau advised Congress to release the assistant treasurers in the remaining six Sub-Treasuries and to hand over the direction and control of the branches to the cashier of the Sub-Treasuries. The consolidation of the entire Sub-Treasury system with the Federal Reserve Banks within six months after the end of the war was also recommended.

The report went on to say that the Federal Reserve system could take over the work of the Sub-Treasuries at an expense of scarcely more than twenty-five per cent. of what the Government is now spending for them, which for the fiscal year of 1917 amounted to $604,-042, including $455,705 for the salaries of Sub-Treasury employees.

One distinction was brought out by this report that must be taken into consideration if the Sub-Treasuries are to be abolished. The function of the Treasury, besides those already enumerated, is to take care of trust funds. These funds consist of gold and silver, securing issues of gold and silver certificates, the Federal Reserve Gold Settlement Fund, and the gold Reserve of about $150,000,000 against greenbacks and the Treasury notes of 1890. These funds at present are distributed among the Sub-Treasuries, mints and assay offices. The distinction between these trust funds and the general fund of the Treasury, which is available for meeting government expenditures is merely one of book-keeping. However, this should involve no difficulty in working out the scheme for the abolition of the Sub-Treasuries, as these trust funds could remain in the custody of the Treasurer of the United States.

One of the rather important services which the Treasuries perform is the so-called redemption of paper currency. When notes wear out or become soiled, the Sub-Treasuries accept them upon presentation and give back clean, new bills. All the national bank notes and Federal Reserve bank notes, however, are sent directly to Washington to be redeemed at the National Bank Redemption Agency. During the fiscal year ending June 30, 1917, the total number of notes cancelled in Washington and at the Sub-Treasuries was 354,-926,184, of a total value of $905,183,-928. Of this amount the nine Sub-Treasuries cancelled 122,098,227 notes of a total value of $574,134,958. Thus, about one-half of the work of the Sub-Treasuries in the line of redemption of paper money was done by the National Agency in Washington. It would not be a hard matter to transfer the other half of the redemption to the same agency, in case the Sub-Treasuries were abolished.

Readjustment Not Difficult

Another point to be considered in this matter is that there are Twelve Reserve Banks and only nine Sub-Treasuries. To combine the two banks would distribute government and other funds to greater advantage, as the Reserve Banks reach to the West agricultural districts, where the Sub-Treasuries could not to the same extent because of the clumsy methods of hoarding money in the Government vaults. The three cities that would be obliged to readjust their business to the proposed plan are Baltimore, New Orleans and Cincinnati. Richmond, however, is near enough to Baltimore, and New Orleans could arrange for a series of banks to take care of its loans. This can be done by the provisions of the Amendment to the Federal Reserve Act whereby the Reserve bank can authorize other banks in its district to act in the capacity of the Reserve bank, provided that these banks are members of the Federal Reserve system. This is an added inducement for the banks of a city possessing neither a Reserve bank nor a Sub-Treasury to come into the combination, and thus add strength to the already financial giant. Cincinnati, at the time of placing of the Reserve Banks made a strong case out for Cincinnati, but it was maintained at the time that Cleveland was the better point, and besides, Cincinnati had the Sub-Treasury.

Leading Opinions

About Financial, Investment, Banking and Business Conditions

"War Revenue Bill Prohibitive"—Smoot

Senator Reed Smoot of Utah, a member of the Senate Finance Committee, in evincing his opposition to the War Revenue bill as drafted by the House, was quoted in the New York *Times* as saying:

The alternative system is a piece of bungling absurdity. The whole bill only adds to the grotesque absurdity of the War Revenue bill of last year. It for the most part stupidly follows the lines of that measure.

This bill of Mr. Kitchin's seems to have been designed so as to reach the fewest number of voters possible. It seeks to apply a tax on corporations that must end in driving some of them out of business. It would tax all the profits they could make.

The differential tax of 18% is an imposition in the first place. After that other taxes would be piled on so that many corporations would have nothing left. To attempt to put this bill into force would be to put a prohibitive tax on the productivity of American war industry."

According to the *Times*, Senator Smoot favors a flat tax rate upon war profits instead of excess profits and expressed the view that a tax of that character would be supported by a majority of Republican Senators. The Utah Senator, it is stated, pointed out that the House bill failed to impose consumption taxes. Mr. Smoot advocates a tax of 1% on all articles purchased at anything over $1 in price, to be levied as a consumption tax. This, he calculates, would yield $1,000,000,000.

Financier.

AMERICAN SHIPPING PROTECTED BY AMERICAN DOLLARS

Checking Speculation

Benjamin Strong, chairman of the money committee, has sent a letter to Pres. Noble of the New York Stock Exchange requesting co-operation of Stock Exchange authorities in the matter of loans made to stock brokers. The letter said in part:

"My Dear Sir: As you are aware, a sub-committee of the Liberty Loan committee of this district was appointed on Sept. 5, 1917, and has undertaken certain duties in connection with New York city money market for the purpose of securing most complete co-operation with government in its financial program by all financial interests of city.

"Work of the sub-committee has met with cordial co-operation of important interests connected with the New York money market and there has been maintained an orderly course of affairs in which supply of funds has been ample for essential needs.

"We believe this condition can be continued. It is obvious, however, that for the present there should be devoted to the security market no additional credit beyond funds now so used.

"Any tendency to expand collateral loan account should for general good under present conditions be checked. In order that this important situation may be handled in a way that will result in least possible inconvenience it is desirable that we should have complete daily view of Stock Exchange loans.

"We recognize the disposition of Stock Exchange to co-operate in every way toward contributing to orderly conduct of the money market and depending upon that patriotic disposition we now ask the governors of the Stock Exchange to collect for confidential use of this committee daily statements from each member of the Exchange showing in such detail as may be agreed upon in conference amount of time and call loans of each Stock Exchange house."

A statement has been made by Gates W. McGarrah, acting chairman of the Money Committee in which he gives warning of the large requirements for funds for war purposes and adds that "any disposition to indulge in speculative commitments based on borrowed money must of necessity lead to an increase in rates that will prove corrective." The statement says:

"The efforts to stabilize money rates made since the first Liberty Loan was offered have met with a cheerful and sincere co-operation on the part of borrowers and lenders. The

government in prosecuting the war requires a constantly increasing amount of money, and while every effort will continue to be made to maintain rates at the present level, it is thought wise, in view of the present progress of the Allied armies, to point out that any disposition to indulge in speculative committments, based on borrowed money must of necessity lead to an increase in rates that will prove corrective."

When Will Prices Fall?

That question probably is in the minds of more people today than any other, unless perhaps we except the query "When will the war end?" says *The Financier*. The transfer of every nickel or dollar or multiple thereof, with its attendant disclosure of less goods for the equivalent in money, makes the question an absorbing one.

The answer is difficult. From the practical standpoint, it depends on a thousand circumstances. Superficially, we might say that prices will fall when less money will buy more goods. Actually that is the real answer. But when will a smaller quantity of money buy a larger volume of commodities?

Not until one of two things happen. Either the quantity of goods must increase faster than money, or the money volume must be checked. Probably the latter will be the logical way out. We do not mean by this that through Government edict, the issue of money —and when we say money we also mean credit —shall be stopped or reduced arbitrarily. That would only make a bad situation arise.

The issue of money, or so to speak frankly, the inflation of credit, will stop only when people realize that they themselves must curtail rather than inflate their own needs. This may not immediately create a surplus of goods, for war demands every ounce of surplus. But it will at least keep prices at a more reasonable level.

The money which people refrain from expending will never make prices go up. When the individual by frugal living builds a little surplus and loans it to the Government, the money is expended for his particular benefit quite as much as though he entered into the transaction personally. More than that, he has the satisfaction of knowing that this expenditure is to be returned to him, principal and interest.

Taxation Effects Upon Municipals

It is the common impression that if the income from state and municipal bonds is made subject to Federal income tax, as proposed by the Ways and Means Committee, the price of such bonds will be materially affected.

In discussing this point in his work, "The Income Tax," Prof. E. R. A. Seligman takes a quite contrary view. Mr. Seligman wrote before the present crisis arose, but the general premises are unchanged. He said:

"In the United States the influence of taxation is sensibly modified by prevailing conditions, and the discrepancy between taxable and non-taxable bonds is far less than might be expected. The rate of the local property tax varies in the United States from 1½ to over 2%. Let us take 2% as the normal figure. Let us also assume that the current rate of interest is 4%, so that 4% bonds will sell at

Evening Post.

THEY WANT ME TO CARRY THAT PIG, TOO

about par. If there were no property tax, and if these bonds were now subjected to the 2% tax, they would manifestly fall to 50, since one half of their yield would be eaten up by the tax. If, on the other hand, we take the actual law under which all property is taxable at the rate of 2%, then if the 4% bonds were exempted from taxation their price on the market ought to rise from par to 200; for instead of the holder netting $2 on each $100 ($4 interest minus $2 tax), he would now net $4, or double the amount. A doubling of the income however, would involve a doubling of the market value.

"As a matter of fact, the disparity between taxable and tax-exempt securities in our American states falls far short of reaching this point. This is true not only of exemption from a special tax, but in still larger measure, of exemption from a general tax. A good example of the influence of a special exemption is afforded by the New York State Canal bonds. When these bonds were authorized, to provide for the enlargement of the Erie Canal, the constitutional amendment limited the rate of interest to 3%. By the time that it had

become necessary to issue the bonds, the market had fallen to such a point that they were not salable, and in order to change the rate another constitutional amendment became necessary. To arrange for the state finances in the interval, a law was passed granting to the 3% bonds a special exemption of 1%, to be applied against the franchise tax of similar amount, payable by savings-banks, trust companies and insurance companies. The 3%s, as a result, sold around a 2.90% basis, and the 4%s around a 3.45% basis. Even here, therefore, the difference in the price of the bonds was only about one-half of the capitalization of the tax.

WE DON'T MIND THE OPERATION, BUT WHY NOT GIVE US AN ANAESTHETIC WHILE DISCUSSING IT?

Germany's Shaky Financial Pyramid

As Germany has continued throughout 1918 to maintain the invidious distinction of being the only one of the leading belligerents which has used the war as an excuse for not publishing national accounts, the inquirer into German war finance is still met by the initial difficulty of having no real indication as to the cost of the war to that country, observes the London *Economist*.

Even if the Imperial returns of expenditure were published, we should be far from having figures comparable to those of other countries, as much of what appears as war expenditure in the budgets of other nations, in Germany is borne by the Federal States or municipalities. At the same time, bearing the above in mind, we may take the votes of credit passed by the Reichstag as an indication, at least of the minimum of direct war expenditure, the upward limit being a matter of pure conjecture. With the vote of £750,000,000 recently passed, the total voted for direct war purposes by the Reichstag since the outbreak of war amounts to £6,950,000,000, of which somewhat more than £6,200,000,000 will have been expended by the end of July.

When it is remembered that only the £200,250,000 indirect taxation is permanent (an ample of the long-suffering submissiveness of the German workers), it will be realised what trouble Germany has laid up for itself by following its easy and showy policy of war finance. The normal revenue of the Empire before the war was somewhere about £150,000,000. To this we may add the above £200,000,000, although, of course, it is impossible to foretell what the actual peace yield will be. Against the £350,000,000 revenue thus reached we have to set a post-war expenditure which has been variously calculated at anything between £600,000,000 and £1,000,000,000, and which will certainly be nearer the higher figure than the lower. These figures give some justification to the Pan-German prophets who declare that for Germany there is no alternative between so complete a military victory that the extraction of enormous indemnities in one form or another is possible, and complete financial ruin.

World's Gold Has Decreased

For a variety of reasons, but principally because of increased working expenses, the gold production of the world generally, and of the British Empire in particular, has diminished since the outbreak of the war, says the London *Financier*.

Even in 1915 the world's output was £96,600,000, of which £60,000,000 was derived from mines in British territory, whereas last year's production in round figures, was £98,000,000 for the world and £58,000,000 for the Empire. It is almost unnecessary to emphasize the seriousness of this decline from an Imperial standpoint. Gold plays a very important, nay, vital part in international commerce, and the British Empire, which annually produces of 60% of the world's supplies, is extremely fortunate in possessing so much of it. During the war our large stocks of gold have enabled us to adjust adverse trade balances and to correct unfavorable exchanges to an extent which would have been impossible had not our available supplies of the metal been as extensive as they actually were. After the war our need of gold will be no less urgent, and it is certain that the more gold we then have at our command the better we shall be able to meet exchange difficulties as they arise.

W. S. S.
As Old Age Annuities

Frank A. Vanderlip, chairman of the National War Savings Committee, recently told the *Tribune* that he thought it would be a national calamity to pay off all the war savings stamps when they mature in 1923.

"I think a plan ought to be worked out whereby the holders of the stamps would get the option of converting them into an old age annuity policy," the president of the National City Bank said. "Of course, every one of the 35,000,000 holders of the stamps should be able to get their money back in 1923 if they desire, but the alternative offer ought to be made so attractive that they will be willing to continue to practice thrift all their lives. If the money is returned the people will fritter it away. It will be like found money to them, and very likely they will spend it in frivolous ways.

"I think the government ought to tell the people that if they leave their money in stamps and continue to purchase them after the war that they can get an annuity from their accumulated savings after they are sixty years old. Here is a way by which we could make the enormous social benefits arising from a campaign of teaching thrift permanent.

"We could keep up a large part of the present war savings organization to explain to the people how they would profit under the new plan. If my suggestion were adopted it would be a mistake to resort to the old unimaginative methods of the postal savings plan. We ought to keep up a large number of the booths and have the worth of a social programme of protection against poverty in old age interpreted from the street corners."

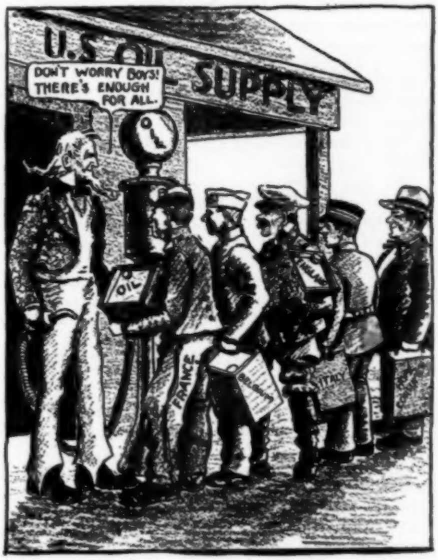
Russia's Great Indebtedness

The *Evening Post* recently gave the following bearing upon the debt and financial prospects of Russia:

Addressing a meeting of English holders of Russian securities, called at London to appoint a committee to deal with the Bolshevik default, the Chairman thus outlined the situation:

"It is impossible to believe that a country like Russia, with a population of nearly 200 millions and an area seventy times as large as that of the United Kingdom, occupying nearly one-seventh of the land surface of the whole globe, can permanently remain without credit, unable to borrow a penny on the money markets of the world, and branded with the stigma of default on and repudiation of its lawfully contracted obligations. Russia is a country which urgently requires capital for the development of its vast resources, and it is quite incredible that she is going indefinitely to bar the door to its introduction.

"With regard to the amount of the debt of Russia, I regret that we have found it impossible, owing largely to the chaotic conditions which have existed in Russia for some time past, to obtain much information of a reliable character. The total State debt is said by that most accurate 'Stock Exchange Official Intelligencer,' to have amounted on Jan. 1, 1917, to about £3,358,000,000. This has, of course, since been increased, and there are the arrears of interest, to be added. Of this



INTERNATIONAL FILLING STATION

total, the direct loans of the State and the railways guarantees probably aggregate about £1,100,000,000, of which about £300,000,000 are known on the London Stock Exchange.

"As to the amount held in this country, we have no means of obtaining any reliable estimate, and though no doubt it is very much less than what is held in France, it must be very considerable. In addition to the foregoing there are the municipal loans, the total of which known in this country is upwards of £20,000,000, represented by twelve loans issued by nine of the principal Russian cities. It is not clear whether the figures I have given with regard to the State debt include the war advances made to Russia by the Allies, the amount of which has not been made public, but which, according to unofficial statements—for the accuracy of which we can in no way vouch—aggregate somewhere between £400,000,000 and £800,000,000."

Leading Banking and Brokerage Opinions

National City Bank of New York—In normal times the fall demand for money is just getting into full swing on September 1st, but this year the seasonal requirements have come earlier, as a result of the earlier movement of the great wheat crop and the general inclination to be forehanded in replenishing stocks. The demand for the industries has been increasing through the summer, and money would be very tight if the supply was restricted to the old-time facilities, but with the spillway for demand into the reserve banks the pressure is scarcely noticeable to the public. Accommodations are obtainable for all approved purposes and interest rates are kept at a level which is artificially low, considered in relation to the demand for money, the general level of prices and the other conditions. The supply of "money" is increased to meet the demands by means of the credit machinery which has been provided.

We see no reason to expect that the demands will fall off or that the credit machinery will fail to take care of the new demands. As a result of the rapid movement of the wheat crop the sections in which it was produced will liquidate indebtedness and have some free capital, but the wheat will have to be carried somewhere until it is eaten, and the cotton crop is coming to market at the highest price level on record.

Hambleton & Co. of Baltimore—There can be no denial that at the moment investment buying is making its presence felt. Activity is shaping itself in two directions: The exacting tribute to be levied by the revised War Revenue Act has resulted in a stimulation of the demand for tax-exempt securities, the inquiry in this quarter centering in Liberty 3½s and Federal Farm Loan 5s, both of which have advanced to new high records in the last ten days. One noticeable factor has been the uneasiness felt towards municipals due to the belief that Congress intends to attempt to place all subsequent issues of that character on a parity with taxable war bonds.

Keane, Zayas & Potts—Regular readers of this letter know that for months we have sought to prepare traders in the stock market for drastic action by Government authorities to prevent a diversion of funds from the production of essential things into channels where these funds would be used simply as markers in speculation. On July 6 last the Federal Reserve Board took official cognizance of this diversion of money and credit for speculation and warned against it. Recently an organization of private banking houses sought to perfect a means through the purchase of acceptances for financing stock market operations. The announcement of this organization promptly brought another caution from the Federal Reserve Bank in this district.

The plain meaning of this is that investment buying is to be encouraged and speculative dealings discouraged. Stocks are still cheap. It is better to buy them outright in small quantities than to attempt to carry them on margin, for these reasons: There is no ban on investment buying, and where you buy outright and take away—if you buy judiciously—the chance of loss is reduced to the minimum. We believe that stocks are a buy at these levels.

Hayden, Stone & Co.—One uncertainty that will presumably be shortly cleaned up is the question of taxation. As nearly as we can judge now, the final result in a word will be that companies will be allowed a fair return upon the value of their property and an appreciable part of their extraordinary earnings. While the proposed scheme of taxation will call for the payment of very much the greater part by the north eastern section of the country, there will be no grumbling. War cost is tremendous in more senses than one, but it must be met. Practically all industrial corporations are earning enough to bring them into the class of war tax payers and in nearly every instance the balance remaining after payment of such taxes, will be more than enough to justify present prices. There is, then, from the market standpoint, little to fear from the forthcoming tax legislation, while there will be a decided feeling of relief when it is out of the way.

Posner & Co.—The railroad contract, while it may contain some provisions not wholly satisfactory to railroad security-holders, is such as to give confidence as to the handling of the properties by the Government.

Whether the properties shall be returned to their owners outright or under some form of Federal control; whether the present system of Federal operation shall be permanently continued or even intensified into Government ownership, railroad owners and creditors have reason to feel assured that they will profit.

If the ownership of the railroad properties remains after the war, as we believe it will, in the hands of its private owners—the stockholders—they will have as a result of the terms and character of Federal operation an improved and strengthened structure financially.

The roads are under Federal protection and guarantee both financially and physically. On this fact as a basis, the investor can readily make selections from among the standard stocks without anxiety as to their future position.

BONDS AND INVESTMENTS

Recent Bond Offerings

Issues of Merit of Interest to the Investor—Their Principal Features and Investment Status

By MEREDITH C. LAFFEY

A SURVEY of recent corporate financing reveals the fact that in both quantity and quality it has been very substantial. In fact it is a commentary on our financial resources that the nation can so readily absorb large amounts of new securities in the brief interval between gigantic government loans. The uniformly high quality of the offerings may be attributed to the unusual conditions which produce a demand for funds on the part of some of the strongest corporations, and to the inability of less prominent, or weaker, concerns to compete with the abnormally attractive, high yield offerings of their larger rivals. While borrowing continues largely along the line of short term notes, there has been a tendency to lengthen out the time to run. The ten year collateral bond has been received in most auspicious style, and a few really long time bonds have also been placed.

Bethlehem Steel Notes

The largest of the recent offerings is the $50,000,000 Bethlehem Steel Corporation 7% note issue, due serially up to 1923 and sold to the public at prices to yield from 7.50% for the first maturity up to 7.75% for the last two. The 1917 earnings of the company were sufficient to meet the fixed charges, exclusive of depreciation, etc., about six times over, leaving a balance equal to more than twice the annual maturities of these notes, which are $7,500,000, except for the last maturity which is $20,000,000. While the war continues, it is reasonable to expect that earnings will continue at about this level, notwithstanding heavy taxation. For this reason, the position of the earlier maturities seems even more completely assured than that of the later maturities. The growth of the Bethlehem Steel Corporation, and its war time prosperity constitute one of the most wonderful industrial romances of the United States. At the same time, it is only prudent for the investor to recall that it is no longer the tight little corporation that it was in 1915, with but $2,342,596 in interest and discount charges. In 1917 these charges reached $8,746,982, a large percentage of increase, though offset by enormous additions to assets and earning power. Furthermore, tremendous sums have been charged off to reserves, this account now being about $70,000,000, or over half of the total debt. Only the results shown after the close of the war can exactly determine the investment status of Bethlehem securities.

Cudahy 7's

Packers are prominent among those concerns which have had phenominal profits, yet have had to borrow in order to obtain sufficient working capital to carry their inventories at present high prices. Cudahy's issue of $10,000,000 Five Year 7% Notes sold very rapidly at 98, and deservedly so. The yield of 7.50, coupled with a high degree of safety, attracted marked attention, particularly in the Middle West, where the Company has long been favorably known. Net quick assets must be maintained at 200% of the amount of these Notes. As of October 31, 1917, but giving effect to present financing, they were in excess of 300% of the Note issue. The fixed assets alone much more than offset the $8,747,000 First Mortgage 5s, the only other debt. Net profits last year were

3.8 times interest charges, and have averaged 3.3 times for the past three years. In short, the only feature which is lacking is mortgage security, and there are safeguards which would make such a provision rather superfluous.

A. T. & T. 6's

Only slightly less in amount than the Bethlehem Steel Notes, are the American Telephone and Telegraph Company Seven Year 6's. At the issue price of 94, the yield is 7.10%, a truly remarkable return for an obligation of a company whose credit has for years been of the very highest character. They are convertible after two years into stock at 106. As the stock has sold over 150 within the last eight years, and has almost habitually sold over 120, the possibilities presented by the convertible feature are apparently large. In any event, the investment worth of the Notes would make them most attractive, for the Company regularly earns its charges over four times and has paid 8% on the stock since 1907. The stock is now outstanding to the amount of $435,658,725, giving the bonds an equity in the form of stock unrivaled by any corporation, with the exceptions of United States Steel and the Pennsylvania Railroad.

Union Pacific 6's

The Union Pacific Railroad issued a short time ago $20,000,000 Ten Year Collateral Trust 6% Bonds, which were very readily sold at 98, yielding 6.25%, and promptly rose to a premium. The success of this flotation probably influenced the Lehigh Valley Railroad in selling an issue of $15,000,000 bonds, also collaterally secured, bearing the same interest rate, of the same duration, and offered to the public at almost the same price 97½ yielding 6.35%. The Union Pacific bonds are secured by collateral composed of standard railroad bonds having a market value of over $25,000,000, and comprising, for the most part, issues legal for savings bank investment in New York and other states. This collateral is obviously of the choicest character. Ordinarily an unsecured obligation of the Union Pacific would be snapped up at a much less attractive price than that of this especially well secured issue. Under government control, the road should receive a rental sufficient to meet the total interest charges about two and one half times. In addition, the company has income from its securities owned and other sources almost sufficient to pay interest charges, making a total income of about three and one half times charges. It is probably a fair statement that the choice for first place in point of attractiveness among recent offerings lies between these bonds and the American Telephone and Telegraph 6's.

Lehigh Valley 6's

The Lehigh Valley 6's are secured by deposit of General Consolidated Mortgage Bonds, and of two issues guaranteed by the Lehigh Valley. They differ, therefore, from the Union Pacific 6's which are secured by pledge of bonds of other railroads. The company has earned a big margin over interest charges for many years, and dividends of 10% have been paid on the $60,608,000 capital stock since 1911. The new bonds are secure beyond all question.

Moline Plow 7's

The Moline Plow Company is another industrial which has been forced by the high cost of everything utilized in the manufacture of its products to obtain additional funds, in the form of a loan for $6,000,000 bearing 7%, maturing annually up to 1924, and offered to yield from 7.50% to 7.75%, according to maturity. Moline Plow is a very old concern, having been established in 1865, and is one of the most important farm implement manufacturers in the country. An attractive feature is the absence of any other funded obligations which would put these Notes in a junior position. As in the case of the Cudahy Notes, the Company agrees to maintain net current assets of not less than 200% of the amount of the notes. For the last five years and eleven months, net income has averaged three and three

quarters times the interest requirements of the issue, which plainly gives them a very liberal margin of safety in earnings, and as they are followed by $7,500,000 first preferred, $1,500,000 second preferred, both of which pay regular dividends, and by $9,996,000 common stock, their stock equity is substantial.

Amalgamated Sugar 7's

A less widely known borrower than any of the foregoing is the Amalgamated Sugar Company which has placed $3,750,000 First Mortgage 7's, maturing annually up to 1923 and offered to yield from 7.50% up to 8.00%, according to maturity. The Amalgamated is one of the largest of the western beet sugar producers and the first mortgage security of the new issue is a strong selling argument. The statistics of assets and earnings indicate the presence in liberal degree of all the conditions essential to a sound investment.

City of Denver 4½'s

A notable offering in the field of municipal securities is the new City of Denver issue of $10,800,000 Water 4½s, sold to obtain funds for the acquisition of the Denver Union Water Company, thereby ending the rather stormy career of that company. The maturity is 1948, and the issue price 95¼, yielding 4.80%. The general debt of Denver, exclusive of the water debt, is exceptionally light.

The yields of the foregoing corporate securities, at the offering prices, range from 6.25% to 8%. These returns are most exceptional, if we have regard to the high level of quality uniformly shown, and may be taken in a general way as a guide to the effect of war's financial burdens, particularly increased income taxes, upon interest rates, a subject upon which a fat volume might be written. The higher level of interest rates offsets the increases in the income tax for all but the big investor, and serves to strike a fair average when taken in conjunction with the relatively low rates on the Liberty Loans, which must, even more than in the past, absorb the great majority of all loanable funds.

The A B C of Bond Buying

How the Ordinary Investor May Judge Bond Values

VII—The Investment Rating of Bond Issues

By G. C. SELDEN

THE word "rating" is applied to different kinds of bonds very much as we use it in connection with business concerns, which are given a credit "rating" by the commercial agencies. And, we may as well add at once, much the same difficulties are encountered in rating bonds as in rating business firms. Each bond, like each firm, has its own peculiarities, and to do a thorough job of rating we should need about as many different ratings as we had bonds.

Still, every investor must rate a bond in some fashion before he buys it, for bonds range from those whose security is practically unassailable to those which are worthless; and in discussing various bond issues it is convenient to have some generally accepted classifications each of which serves as a sort of container into which a bond may be mentally dropped.

In rating bonds there are a number of mistakes to be avoided. I have already referred to the danger of depending upon the *average* earnings available for interest charges during a series of years, and the danger of judging any one bond out of a considerable number issued by one company, by the number of times its particular interest charge is earned *after* providing for other bonds having priority over it.

Another mistake, as it seems to me, is to attempt to carry the application of cut-and-dried ratings to an extreme. One bond adviser has fourteen different ratings, running from Aaa to F. Where so many ratings are used it becomes a Chinese puzzle under exactly which rating any particular bond should be placed, because of the wide variation in the elements which enter into investment value. If bonds could be rated on one characteristic alone, the number of ratings could be multiplied at pleasure.

Looked at from a "horse-sense" point of view, the rating of a bond is not such a difficult matter, but the subject cannot be satisfactorily handled with tape measure and calipers.

A Practical Classification

A practical method of rating bonds, which consists merely of a slight extension upon terms commonly used by bond men and therefore somewhat generally understood, may be outlined as follows:

I. HIGH GRADE:

(a) Bonds of the highest grade, in regard to which it is believed that the principal is secure and the interest payments assured, and which are easily marketable if the owner desires to sell. Bonds of this grade are affected by general market conditions, but scarcely at all by the earnings of the company which issues them.

(b) Bonds having substantially the same security as (a), but not so readily marketable because not so generally known or traded in, or whose prices are likely to be slightly affected by changes in the company's earnings.

II. SECOND GRADE; intermediate between high grade and speculative:

(a) Bonds supported by good earnings, but somewhat deficient in the matter of underlying mortgage or property security.

(b) Bonds issued by companies whose earnings have usually fluctuated considerably from year to year, or in a branch of industry where considerable variations are likely to occur.

III. Speculative; bonds whose prospects are in some degree of doubt:

(a) Bonds whose position is apparently secure for some time to come but whose more distant future is open to some question.

(b) Bonds which are paying their interest but are in a weaker position than (a).

(c) Bonds not paying interest; that is, in default, or else income bonds for which the necessary income is not being earned.

In order to give a concrete idea of what is meant by each of the above ratings, I will select one bond of each class and give a brief investment analysis of it. This will have the additional advantage of showing the general methods of analysis which are commonly employed.

I (a). Atchison General 4s, due 1995. Current price 81; current income on price 4.9%; yield 5.0%. Outstanding, $150,634,000; a first lien on 5,197 miles of road, or at the rate of $29,600 per mile. Also first collateral lien—that is, a first lien through other securities deposited behind these bonds—on 1,389 miles; second lien on 1,961 miles; and further secured by deposit of $90,480,000 (par value) of bonds and stocks of controlled railroads, terminal companies, etc. From this it is seen that mortgage and collateral security is abundant.

For ten years Atchison has never earned its total interest requirements for all bonds less than 2½ times in any year; in 1917 4¼ times. The general 4s have an excellent market, being quoted nearly every day on the N. Y. Stock Exchange. The road has been exceptionally well managed and is, of course, one of the best systems in the country. It is difficult to imagine anything that could happen which would seriously affect the security or marketability of this bond.

I (b). Union Pacific Convertible 4s, due 1927. Current price 85; current income on price 4.7%; yield 6.2%. Debentures, secured by the general credit of the company, which is very high. Convertible privilege has expired. Callable at 102½ and interest. Legal for savings banks in New Hampshire and Rhode Island. In ten years total interest charges for all bonds have never been earned by this company less than 3 times over. Complete 1917 report not yet available. In 1916, interest charges earned 4.12 times. Good market on N. Y. Stock Exchange.

It is evident that this bond is fully entitled to be rated as high grade, but since it has no direct mortgage security its price is likely to be slightly affected by any wide changes in the earnings of the company.

II (a). Chesapeake & Ohio Convertible 4½s, due 1930. Current price 77; current income on price 5.85%; yield 7.4%. Nature of security behind this bond was explained in Chapter III; it is but little better than a debenture. In ten years company has never earned all interest charges less than 1 1/3 times; in 1917, 1.82 times. Under these conditions the bond must be rated as second grade, although it is apparently secure and the general prospects of the company for further growth are excellent.

II (b). Bonds of this class, which begins to approach the speculative plane, need careful examination. A good example is International Agricultural First and Collateral 5s, due 1932; current price 75; current income on price 6.7%; yield 8%. The following analysis of this bond was recently issued in connection with The Magazine of Wall Street's Investment Letter Service:

"We are asked whether these bonds are a safe investment, in view of the fact that a large part of the present earnings of the company are a result of its contract with the Tenn. Copper Co. for sulphuric acid and are therefore dependent on the war.

"This Co. was incorporated in 1909. It owns and operates 13 plants, fertilizer and acidulating, one (a mixing plant) in Me., two in N. Y., one in Ohio, and the rest in the Southeast. It has also acquired from time to time the capital stocks of 17 fertilizer and phosphate companies, the two most important being the Agricultural Investment Corporation with $1,000,000 stock, and the Prairie

Pebble Phosphate Co. with $1,380,000 stock. It originally owned the Kaliwerke Sollstedt Gewerkschaft, a German potash company, but sold half its holdings in 1912, while the present value of the remainder is problematical because of the war.

"In 1912 $13,000,000 of these bonds were issued, about half to retire bonds of subcompanies and the other half to retire floating indebtedness which had had arisen in connection with the acquirement of various holdings. The bond issue was, therefore, warranted by the property acquired. A minimum of $325,000 of these have to be retired yearly by sinking fund; and since the Co. has to pay into the sinking fund 20 cents a ton on all phosphate mined above 1,000,000 tons, more than $325,000 may sometimes be retired. Amount outstanding has now been cut down to $10,275,000. They are abundantly secured by first mortgage on valuable assets. From this point of view there is no question as to their safety.

"As to the company's earnings, the 1912 showing was large but illusory, since in that year the amount received from the sale of half the Kaliwerke holdings was credited to income—a peculiar method of bookkeeping. The immediate loss of half the Kaliwerke dividends with the later loss of all, because of the war, together with very dull fertilizer business in this country, reduced earnings sharply from 1913 to 1915. In those three years interest charges for these bonds were earned only 1.2 times. A third cause of these small earnings was the discontinuance of exports of phosphate rock, previously a considerable source of income.

"During the last three years earnings have taken a tremendous jump. To what extent has the increase been due to profits on the sulphuric acid contract with Tenn. Copper? These profits were about $450,000 on the 1916 fiscal year (ending June 30) and about $700,000 in 1917. Results therefore have been as follows:

	Times bond int. earned.	Times bond int. earned without acid profits
1916	3.62	2.29
1917	3.54	2.85
1918	5.00 (est.)	(?)

"It will be seen that this bond interest has been earned more than double without any acid profits. This is due to increased demand for fertilizers, better fertilizer profits per ton, and the development of the company's properties. Demand for fertilizers after the war will certainly exceed the demand immediately before the war. Profit per ton might possibly be no larger. The acid contract continues to 1921, and orders ahead guarantee large profits for the 1919 fiscal year as well as for 1918.

"In view of the fact that these bonds are being constantly retired by sinking fund, it is hard for us to imagine conditions under which their interest would be earned less than 1½ times after the war, while probabilities favor its being earned nearly twice. All bond prices are likely to rise with the approach of peace. We believe, therefore, that these bonds are a conservative investment for business men up to the end of the war at any rate. Of course the investor should keep posted on their outlook, as with any business man's investment."

III (a). Erie Convertible 4s "D," due 1953. Current price 52; current income 7.7%; yield 8.2%. Convertible into common stock at 50 until 1927 (present price of common 15). Practically a debenture, secured by company's credit, which is not high. In 1908 company's fixed charges were not fully earned; in 1914 earned only 1.04 times; in 1917 1.05 times; in best years, 1913 and 1915, earned 1½ times.

Clearly a speculative bond, but earnings now guaranteed by Government will probably be sufficient to cover all the company's fixed charges about 1¼ times, so that interest on this bond is sure until 21 months after the end of the war. Presumably after the war the roads will be permitted to charge high enough rates to enable this company to earn its bond interest.

III (b). Minneapolis & St. Louis First and Refunding 4s, due 1949. Current price 45; current income 8.9%; yield 9.5%. Outstanding, $13,244,000; first lien on 227 miles, or at rate of over $58,000 a mile; also second, third, fourth and collateral liens. Company under-

went voluntary reorganization in 1916. Past history checkered. Bond interest charges not fully earned in 1914. In 1916, earned 1.4 times; 1917 report not yet out.

A speculative bond, with doubtful prospects.

III (c) HUDSON & MANHATTAN ADJUSTMENT INCOME 5s, due 1957. Current price 20; interest not being paid. Substantially equivalent to a non-dividend-paying preferred stock. Company's income is comparatively regular from year to year and it now has the benefit of a Government guaranty, but the amount available for this bond is not sufficient to warrant interest payments at present. However, the bond has speculative prospects, as this company's business will enjoy a gradual growth.

In the next article Mr. Selden will begin the discussion of the various factors which enter into the making of bond values and prices.

BUYING BONDS BY PARTIAL PAYMENT

THE name of Kitty O'Grady may sound like that of a new popular song, writes John Muir in the *American Magazine*. But it isn't. It's the name of a scrubwoman in our building who comes to the office the first of each month to pay the instalment on her baby bond purchased on the partial payment plan. Whenever she visits us, we have a feeling of genuine satisfaction. With her meager wages, she represents the lowest earning power we can possibly reach. Having interested her, we think we should be able to interest people with greater earning power but perhaps less investment sense than Kitty has.

Twelve years ago, it would not have been easy for Kitty O'Grady to have purchased a baby bond, because they were not being issued in any large quantities. It was not until after the panic of 1907 that the idea of breaking $1000 bonds into small denominations forcibly appealed to brokers. There had been a few small bonds on the market, but not many.

Then came the panic. Because of the low prices, the small investor was attracted to the stock market, and the large corporations and investment houses then saw the possibility of interesting the small investor.

Out of that experience came the first issues of $100 bonds by huge corporations such as Bethlehem Steel, Northern Pacific, United States Steel, and others; until to-day, excluding the holders of Liberty bonds, there are more than 300,000 bondholders in the country. With the Liberty bonds included, there are probably more than 20,000,000 bond holders in the United States.

This increase has been mostly due, I think, to the partial payment plan of purchasing securities, a plan which originated in 1910.

When the scheme was first tried out, a canny Scotchman came into my office, tightly clutching a ten-dollar bill.

"I want to invest," he said slowly; "but I want to be safe."

I explained the partial payment plan to him, and when I had finished, he said shrewdly:

"Mr. Muir, the best thing about this is that, though I pay you 6 per cent interest for the money you invest in buying the bond for me, the interest I get during the year more than pays for what I pay you; so that, even while I'm buying the bond, I make something."

He was quite right, of course, in that case. For example, if you buy a 5 per cent $100 bond which is selling at 80, you will get $5 throughout the year, and only have to pay your broker $2.43; because, as you make a new payment each month, the amount you owe naturally decreases. And as you have paid only $80 for your bond and are getting $5 interest, you are really getting more than 6 per cent on your money instead of 5 per cent.

There should be no fear of losing money by the partial payment plan, for if, after making several payments, the buyer cannot keep them up, he can usually sell his bond for about what he paid. Bonds, as a rule do not depreciate seriously during the year and a half, or less, that it takes to pay for them under this plan; unless, of course, a sudden disaster such as war occurs. In any case, the holder of the bond will have had the benefit of the interest during the period, and his loss will be slight, even though the bond may have sagged a little in price.

BOND BUYER'S GUIDE

A Classification of Listed Bonds

Arranged by G. C. Selden

THE following table includes most of the *active* bonds listed on the New York Stock Exchange. An endeavor has been made to arrange these bonds in the order of their desirability as investments, based upon a combination of two factors, namely, security of principal and income return.

In many cases it is difficult to determine whether a certain bond should be rated above or below another, and in this respect the investor who has uppermost in mind security of principal will no doubt differ as to classification, with one who is concerned primarily with the amount of income received from the investment, and *vice versa*. The arrangement below, however, attempts to balance these two factors. *This table appears in every third issue of the magazine.*

FOREIGN GOVERNMENT BONDS

	Approximate price	Yield about per cent.
Am. For. Sec. 5s, Aug., 1919	97½	7.75%
Anglo-French 5s, Oct. 15, 1920	95¼	7.55
U. K. Gt. Brit. & I. 5½s, Feb., 1919	99½	6.55
U. K. Gt. Brit. & I. 5½s, Nov., 1919	99⅛	6.25
U. K. Gt. Brit. & I. 5½s, Nov., 1921	96¾	6.40
French Cities 6s, Nov., 1919	97	9.00
Paris 6s, Oct. 15, 1921	94¼	8.20
Dom. Canada 5s, April, 1921	95⅛	7.05
Japanese 2nd Series, Germ. Stpd. 4½s, 1925 (par value $974)	80½	7.90
Dom. Canada 5s, April, 1926	94½	5.90
Dom. Canada 5s, April, 1931	93¾	5.70
French Govt. 5½s, April, 1919	100	5.50

RAILROAD BONDS LEGAL FOR NEW YORK STATE SAVINGS BANKS

First Grade:

	Approximate price	Yield about per cent.
So. Pac. Ref. 4s, 1955	77¼	5.40
At. Coast Line Cons. 4s, 1952	80	5.30
C. Burl. & Q. Ill. 3½s, 1949	73	5.30
Lou. & Nash. Unified 4s, 1940	84	5.25
Nor. Pac. p. l. 4s, 1997	81	5.00
Atch. T. & S. Fe Gen. 4s, 1995	80¼	5.00
Pennsylvania Gen. 4½s, 1965	87	5.25
C. & North West. Gen. 4s, 1987	83	4.90
N. Y. Cent. 1st 3½s, 1997	70	5.00
Union Pacific Ref. 4s, 2008	79	5.10
Norf. & West. Cons. 4s, 1996	80¼	4.95
Union Pacific 1st 4s, 1947	87¼	4.80
Pennsylvania Consol. 4½s, 1960	94½	4.80
C. Burl. & Q. Gen. 4s, 1958	80	5.15
Illinois Cent. Ref. 4s, 1955	78	5.35
M. St. P. & S. S. Marie Cons. 4s, 1938	82	5.50
Balt. & Ohio 1st 4s, 1948	74¾	5.80
Balt. & Ohio p. l. 3½s, 1925	88	5.55
Nor. Pacific Gen. 3s, 2047	58	5.10
Gt. Northern 4¼s, 1961	87¾	5.00
C. M. & St. Paul Gen. 4½s, 1989	80½	5.60

Second Grade:

	Approximate price	Yield about per cent.
C. M. & St. Paul Conv. 4½s, 1932	77¼	7.05
Balt. & Ohio Conv. 4½s, 1933	76	7.10
C. M. & St. Paul Ref. 4½s, 2014	68	6.60
C. M. & St. Paul Conv. 5s, 2014	79¾	6.25
Balt. & Ohio Ref. 5s, 1995	99½	6.30
N. Y. Cent. Ref. 4½s, 2013	81	5.50

RAILROAD BONDS NOT LEGAL FOR NEW YORK SAVINGS BANKS

First Grade:

C. Burl. & Q. joint 4s, 1921	93¾	6.30
Oregon Sh. Line Ref. 4s, 1929	82	6.20
Lake Shore Deb. 4s, 1928	85	6.00
Union Pacific Conv. 4s, 1927	87	5.85
At. Coast L., L. & N. Coll. 4s, 1952	72½	5.85
Col. & So. 1st 4s, 1929	85½	5.75
Southern Ry. Cons. 5s, 1995	88¾	5.65
Seaboard A. L. 1st 4s, 1950	70	6.15
N. Y. Cent. L. S. Coll. 3½s, 1998	61½	5.75
Wabash 1st 5s, 1939	91	5.70
Kans. City Term. 4s, 1960	73	5.65
Virginian Ry. 1st 5s, 1963	88½	5.70
C. Rock I. & Pac. Gen. 4s, 1988	76	5.30
Reading Gen. 4s, 1997	82	4.90

Second Grade:

St. L.-San Fran. p. l. 4s, 1950	59¼	7.25
Den. & R. Grande Cons. 4s, 1936	67	7.25
Mo. Pac. Ref. 5s, 1923	90	7.40
Ches. & Ohio Conv. 4½s, 1930	75¾	7.60
So. Pac. Conv. 4s, 1929	79	6.70
Ches. & Ohio Conv. 5s, 1946	81½	6.55
So. Pac. Conv. 5s, 1934	92	5.75
C. Rock I. & Pac. Ref. 4s, 1934	69	7.30
Col. & So. Ref. 4½s, 1935	73¼	7.25
Kans. C. So. Ref. 5s, 1950	78	6.70
N. Y. Cent. Deb. 6s, 1935	94	6.55
Erie Cons. 4s, 1996	66	6.15
Pere Marquette 5s, 1956	81	6.35
C. M. & St. Paul 4s, 1925	83	7.10
Mo. Pac. Gen. 4s, 1975	58	7.10
C. C. C. & St. Louis Gen. 4s, 1993	62½	6.50
St. L. So. West 4s, 1989	66	6.05
Erie Gen. 4s, 1996	53¾	7.50
Southern Ry. Dev. 4s, 1956	63	6.70
Erie Conv. 4s "D", 1953	52¼	8.05
Chic. Gt. West. 4s, 1959	57¼	7.30
West. Md. 1st 4s, 1952	58½	7.40

INDUSTRIAL BONDS

Central Leather 1st 5s, 1925	94	6.10
Western Electric 1st 5s, 1922	95½	6.25
Lackawanna Steel Cons. 5s, 1950	92	5.50
Beth. Steel Ref. 5s, 1942	88¾	5.90
Midvale Steel 5s, 1936	87¾	6.15
Inter. Mer. Mar. 6s, 1941	98¾	6.15
Am. Smelt. & Ref. 5s, 1947	86¾	5.95
Rep. I. & Steel 5s, 1940	93	5.55
U. S. Steel S. F. 5s, 1963	98	5.10
Indiana Steel 5s, 1952	94½	5.40
U. S. Rubber Ref. 5s, 1947	80¾	6.50
Wilson & Co. 6s, 1941	91	6.70
Va. Car. Chem. 5s, 1923	94	6.20
Nat. Tube 1st 5s, 1952	97	5.20
Gen. Elec. Deb. 5s, 1952	98	5.10
Am. Agri. Chem. Conv. 5s, 1924	99	5.20

PUBLIC UTILITY BONDS

Am. Tel. & Tel. Conv. 6s, 1925	94½	7.00
Am. Tel. & Tel. Coll. 4s, 1929	78	6.70
Int. Rap. Tran. Ref. 5s, 1946	80½	6.35
N. Y. Telephone Gen. 4½s, 1939	85	5.75
Am. Tel. & Tel. Coll. 5s, 1946	89½	5.70
Consol. Gas N. Y. Conv. 6s, 1920	99½	6.20
Public Service Corp. N. J. 5s, 1959	76¼	6.70
Int.-Met. Coll. 4½s, 1956	50	9.25

Investment Inquiries

Nipissing Not An Investment

J. C., Boston, Mass.—Nipissing cannot be considered a permanent dividend payer because ore reserves are not only reaching the exhaustion stage, but also because the ores remaining in the mines are low grade, and can not be mined at anything like present profits with silver prices at normal levels. So long as silver remains at $1 an ounce the company will probably be able to show fair profits, and as the outlook is that silver will remain at $1 for some time the company is likely to do well, during say the next year or two. But these prospects are not permanent. Purchasers or holders should recognize that a stock like Nipissing is not a permanent investment and that its dividend cannot be depended upon.

Hold Your Erie 1st Preferred

B. A., Albany, N. Y.—Erie first preferred does not appear to have much of a chance as far as dividends are concerned, but the technical situation in the shares is strong, and with prevailing activity in the railroad group and the preference which certain foreign investors show for the Erie issues, we suggest that you retain your shares in the meanwhile in the hope that you will be able to sell without any great loss eventually.

Status of U. S. Steamship

D. C. B., New York, N. Y.—U. S. Steamship controls several small shipping companies, owning vessels formerly operating along the Hudson, barges, terminals, etc. Its pleasure steamers have all been commandeered by the Government, and its coast steamers either sold or chartered to the Government. It is, however, a shipbuilder on a large scale, and charters vessels all of which appear to be doing a good business. The company is expanding steadily and has ships under construction to add to its already large fleet. It has Government contracts for the construction of wood and steel vessels in its yards at Noank, Groton, Conn. and Alexandria, Va. When the three yards are fully organized, the company will be able to keep 22 ships, steel and wooden, under construction simultaneously. Dividends are being paid at the rate of 1% regularly bi-monthly (6% annually) and ½% extra every other month (6% annually) this being at the total rate of 9% per annum. Actual dividend payments are, therefore, 90 cents annually of a par value of $10 and the yield on the investment is about 14¾% per annum. The dividend which was formerly derived from passenger traffic should be secure as the company has been able to earn and pay them irrespective of shipbuilding operations. The latter will, of course, add to the earning power of the company, and even if the dividend is not increased, it at least appears to be safe. The dividend is being earned about twice. The shares are not an investment, but a speculation and, if you are prepared to assume a moderate risk, we believe that a purchase for a long pull will prove profitable.

Wright-Martin and the Aircraft Investigation

G. M. K., Erie, Pa.—The effect of the Aircraft investigation will depend upon the document itself, which is confidential at present. We do not know in detail the evidence placed before the Commissioners, and whether it has anything to do with the Wright-Martin Company, as the contents of the document have not yet been divulged. The shares might be sympathetically affected, and in fact, they have already shown the effect of the fear that the investigators might effect the future earnings for this company, as well as Wright-Martin. However, the shares are selling low enough to reflect this uncertainty, and it does not alter our recommendation to purchase.

United Eastern a Speculative Investment

J. M., San Francisco, Cal.—United Eastern is a good speculative investment as the dividend seems fairly secure, and earnings are about double current dividends. The shares may decline in a depressed market, which is not in sight, and we hesitate to make a prediction regarding United Eastern which appears to be selling low enough considering its value. The profits possibilities of the shares lie in the probability of strikes at lower levels in the mine and the possibility of an increase in the dividend later. The shares have peace possibilities when production costs decline, while the price of gold remains the same. The margin of profits would naturally be higher in such case.

Possibilities of Pierce Oil

A. B., Chicago, Ill.—The company's prospects and the position of its securities were fully analyzed in our July 20th issue. We believe that the shares have already discounted most of the favorable factors in the situation, and we favor the notes in preference to the stock at this time. We cannot predict the market action in the near future. The notes are a sounder investment for a business man. We suggest that if you do not wish to assume a substantial speculative risk that it would be more desirable to purchase the notes. We do not think that peace will particularly

effect the earnings of Pierce Oil sufficient to cause much higher prices to prevail, but such an event is likely to cause enthusiasm in the general market, in which case Pierce Oil might advance still further.

Calumet & Jerome's Prospects

L. E. M., Chicago, Ill.—Calumet & Jerome Copper Company is a mining speculation of some merit, which was formerly selling at a somewhat inflated level, compared with its chance of encountering the Daisy Vein of the United Verde Extension and United Verde Companies. The company is yet in the prospective stage, and development work has not been carried far enough to establish it as a producer. Some sample shipments of ore, in small quantities, have shown up promisingly and hopes are entertained in certain quarters that a mine will one day be made of it. The stock has speculative possibilities for a long pull. The shares have declined merely because they were selling too high formerly with an uncertain prospective value. Late news of a reliable character is not available and signs of development are proceeding slowly. It would probably be better to hold your shares rather than sell current low levels, as all the Jerome stocks are very popular at this time and it is not impossible that some revival of interest will take place in these later.

American International's Standing

F. G. W., Dundee, Mich.—American International Corporation was founded in November, 1915, to further the development of import and export trade, the use of American manufacturers and materials abroad, and the employment of American capital and American Engineers in the construction of foreign enterprises, the enlargement of the system of ocean carrying trade under the American flag, etc. The company controls a large number of subsidiaries, including shipbuilding companies, steel companies, and is interested in the stock of U. S. Rubber, U. S. Industrial Alcohol, New York Shipbuilding, Mercantile Marine, etc. Capital stock consists of $50,000,000 (par $100) of which 60% is paid in. The common stock, selling around 55, is subject to further calls to the extent of 40%. The dividend is 90c a share quarterly, this being at the rate of 6% of the amount paid in or $3.60 a share. The shares sold as high as 62¾ last year, and the absolute low was around 46. On last reports, net earnings were about $3,700,000 and the dividends are being earned more than twice. The stock is a good speculative investment, and the company was fully discussed in the June 8th issue of the Magazine of Wall Street. Present yield is about 7%.

Concerning 3½% Liberty Bonds

S. A. F., New York.—It would probably interest you to study our Liberty Bond section in the last issue of The Magazine of Wall Street, before you decide to dispose of your 3½% Liberty Bonds, so that you may see the investment and speculative feature surrounding this issue. It is tax exempt and convertible into any other bond of a higher rate, and on that account is being bought by wealthy investors for long pull possibilities. However, the 4¼s at 95 are attractive for the average investor, because the present yield is high, and these bonds should also show a substantial appreciation in good time. It is by no means unpatriotic, we believe, for an investor to switch from one issue into another since no actual sale is involved, and we may say that there are sufficient wealthy investors to take the place of those not so fortunately situated, who take advantage of the opportunity afforded by supply and demand to acquire other issues at a lower rate. Southern Pacific is a gilt-edge railroad stock which you can hold indefinitely, with confidence as to the maintenance of its dividend and ultimate appreciation.

Position of Ray Consolidated

E. S. J., Iselin, N. J.—Ray Consolidated Copper is an investment copper stock with constructive features of attraction and it has always been our view that Ray is selling out of line with the majority of other issues, such as Miami, Chino, etc. When Ray Consolidated again sells around 35 or 40, it will be time enough to think of selling. "The Outlook" in the Magazine of Wall Street, and the Trend Letter to which you subscribe, will give you a good line upon the position of the market for the copper stocks, and until either of these become definitely bearish, you need not dispose of Ray Consolidated. The time will probably come when you will be able to purchase again at lower prices.

Technical Position of Baltimore & Ohio

F. G., Cinc., O.—Baltimore & Ohio's technical position in the market, together with the strength of the railroad list in general favor some advance, but the earnings position of the shares would be unfavorable, but for the Government guarantee. These shares on a 5% basis are likely to give a good yield as long as the Government is in control. The indicated earnings for 1917 were only 4.65% on the common stock, and in a statement issued by the President of the company it was stated that except for better prospects for the future under Government control, some action might have been taken regarding a reduction in the dividend rate. We favor a switch in Chesa-

peake & Ohio, paying $4 a share, earning its dividend, and more likely to increase its dividend payment to $5 during the next few years. Chesapeake is a growing road and its long range prospects are more encouraging than those of Baltimore & Ohio.

Position of Cuba Cane

G. F., Denver, Col.—Cuba Cane Sugar com. and pfd., which is listed on the New York Stock Exchange, and enjoys a far better active market than Haytian American Corporation, appears to be the more desirable stock to hold for investment. Generally speaking, we do not favor unlisted stocks of this type as the company is not compelled to furnish full and complete report of earnings. nor to make known all of the details of its operations as in the case of a listed security, which must be approved of by the listing committee of the New York Stock Exchange. If your loss is not too great, it would be advisable to put your holdings into Cuba Cane Sugar common and preferred, both of which are now selling at an attractive level offering profit-making possibility, and in the case of the preferred issue, a maturing investment at an attractive price.

Difficulties of Federal Oil

H. E. J., Brooklyn, N. Y.—Although Federal Oil is selling at a very low level compared with former high prices around 7 and 8, it should not be overlooked that the shares had a spectacular advance on the occasion from under a dollar. The shares have been a speculative "football" on the N. Y. Curb, and we are not impressed with the market handling of the stock. Although the company has some earning power and over a period of years might live down a poor reputation, we are not prepared to recommend a purchase at this time. We also understand that the company has a large number of producing wells, but the trouble is that it has little or no pipe line facilities. It is one thing to obtain oil and quite another to get it away. This has been the Federal Oil's trouble for the past year. The shares have some merit in a speculative way and if you are prepared to assume the risk, we suggest that you hold in the meantime in the hope that you may be able to realize to somewhat better advantage. We, however, would prefer Island Oil & Transport.

Galena-Signal Prosperous

J. W., Larchmont, N. Y.—Galena Signal Oil has declined to around par recently due to the fear that the dividend on the common stock is not as secure as under the smaller capitalization. Recently the company offered $8,000,000 8% preferred stock and $4,000,000 in additional common stock. The latter is being used to acquire new properties in Texas. The new properties are expected to earn about $2,000,000 net and this with $2,500,000 additional from the company's old properties, will be sufficient to show the 8% preferred dividend, earned about seven times. The company's prosperity is due to a tremendous demand for engine and lubricating oil. From the standpoint of a specvestor, common stock at current level possesses excellent speculative possibilities.

Diversified Investments

W. L. D., Chicago, Ill.—We suggest a diversified investment in the following preferred issues: Beth. Steel new 8% pfd., Cuba Cane Sugar pfd., Mex. Pet. pfd., U. S. Ind. Alcohol pfd., Maxwell 1st pfd. (speculative investment), Atchison pfd., So. Ry. pfd., Gen. Motors pfd., Am. Woolen pfd., Gr. Northern pfd., Pierce Arrow pfd., Federal Mining pfd. (somewhat speculative), Colo. & So. 1st pfd., St. Paul pfd., Willys Overland pfd., Va.-Car. Chemical pfd. All the above have attractive possibilities, and dividends where paid are reasonably secured. All the above are suitable for the funds of a business man, and we believe you will find an investment in them very satisfactory for the long pull.

Attractive Preferred Railroad Issues

H. R. P., Racine, Wis.—Northern Pacific and Great Northern preferred are both very attractive railroad issues, and it is really difficult to choose between them. These companies are joint holders of Chicago, Burlington & Quincy, the dividend is the same, although late earnings of Northern Pacific are somewhat higher than Great Northern preferred. Great Northern preferred is likely to advance to a greater extent than Northern Pacific in any general activity in railroads, and from this point of view is more desirable.

Cities Service is Safe

H. H., Jamaica, L. I.—Cities Service 7% Conv. Deb. are a safe investment for the funds of a business man. There is some value to the conversion privilege which will largely depend upon the course of the market during the next year or two, and whether the company will continue to show such wonderful earnings out of its oil holdings as it has been doing during the last two years. The outlook favors continued prosperity for some time at least, although the conversion privilege does not look very attractive now, it possesses good possibilities.

Loose-Wiles a Speculation

J. B., Jersey City, N. J.—Loose-Wiles common is at present a speculation, and although the shares might mature eventually as an investment, it will take the company some years before substantial earnings are consistently shown for the common stock, and meanwhile dividends are very remote. The company has been war prosperous, it is an important competitor of the National Biscuit Company, and earnings showed a remarkable improvement last year. They amounted to nearly $13 a share, against a trifle over $5 a share in 1916 and nothing in 1915. But if the company has been war prosperous, this is offset by the high cost of materials, labor, etc., and as this is the first year in the history of the company that substantial earning results have been shown, an investor would have to take a long chance as to what will happen when the war is over and prices of materials, as well as the finished product, come down. On its pre-war showing, one cannot become enthusiastic over the prospects for the future. We prefer Willys-Overland, Tennessee Copper, American Zinc, or Peerless at around the same levels, or Magma Copper, a mining stock with excellent prospects, or Kennecott Copper, an established producer whose prosperity after the war seems assured.

Attractive Issues

J. D., Syracuse, N. Y.—Southern Railway pfd. and Kansas City Southern pfd. are very attractive dividend paying railroads, and among the best in their class. They are not gilt-edge, nor of the highest rating but they are among the best of the second-grade preferred stocks, and are selling at an attractive level. Dividends are safe in both cases, and earnings show a strong upward tendency. Both issues are being bought by foreign, as well as local investors, for income. Pierce Arrow common and preferred are also very attractive. The common stock was placed upon a dividend basis on August 1st, 1917, when $1.25 was declared. The stock is on a permanent $5 per annum basis now and earnings are at the annual rate of about $13 a share—a slight improvement over last year. We believe all the above to be excellent investments for a business man.

Possibilities of Shattuck-Arizona

J. J., Des Moines, Iowa—Shattuck-Arizona is a high cost producer, and produced its copper last year at a cost of over 13c a pound. While such production costs were somewhat abnormal, the company has never made an exceptional showing in the way of low costs, and when the price of copper comes down we doubt whether the dividend is entirely safe. For eight years the company showed average earnings of a trifle under $3 and this in conjunction with the fact that the majority of the ore bodies of the company are low grade and that the earning position does not appear to be improving, we see no speculative inducement for suggesting a purchase of the stock. The company is now earning at the rate of about $1¾, which is a slender margin over dividend requirements.

Brooklyn Rapid Transit's Outlook

G. B., New York City—Brooklyn Rapid Transit is unlikely to pay scrip dividends for about three years, but if it gets the increase in fares that it has been urgently requesting, it is not improbable that the company might pay dividends, which would have a maturity ranking subsequent to the rights of holders of the new three yr. 7% notes. The latter mature in 1921 and any scrip dividend would therefore not be payable in cash until after July, 1921. The company has expended enormous sums of money on new equipment and improvements, and was unfortunate enough to have a large note issue falling due at a time when money was not in free supply. The decline in the shares was due partly to this unfavorable financial feature, as well as the liquidation of well over 50,000 shares held by one of the largest holders, Governor Eugene N. Foss. The B. R. T. is recognized as essential to war work, and some relief will probably be granted. It would seem advisable to hold your shares.

Use of Graphs

K. L., Auburn, N. Y.—We find the great difficulty is that your barometers indicate market movements too far ahead. It does not avail to know that a big decline is coming six months or a year ahead, because you cannot tell from your graph what will happen in the meantime. To be of practical advantage your method should forecast what is in the immediate future. Every one should evolve his own method, and it should be of a kind that will give him the information and guidance he requires. It is seldom that two people employ the same method of judging the market, and yours may be the very best for your purpose.

We congratulate you upon the results thus far obtained.

Crucible Steel Compared With American Steel Foundries

Their Market Actions Contrasted—Crucible's War-Boom—Its Dividend Outlook—Steel Foundries in Semi-Investment Ranks

By A. C. LAURENCE

STRIKING contrasts that open a field of interesting discussion are evident at every angle of an analysis of Crucible Steel and American Steel Foundries. Hence this article.

That which warrants comment first and which really gives the key to the position of these stocks is the market action of each since 1913 to date. This is depicted in Table I.

The wide swings of Crucible duly reflects its ultra-speculative character. American Steel Foundries, it will be noted, has moved forward in a much more orderly, substantial fashion. It has registered new highs each year with the exception of 1917, while Crucible has failed in each year since 1915, to reach a previous year's top. Moreover, American Steel Foundries has responded buoyantly to the most recent general upswing in the market, while Crucible has lagged behind —the veritable antithesis of that spectacular war-bride of other days.

At first blush one would be likely to attribute this difference to the fact that Crucible's recent record has been a disappointment on the score of earnings and dividends, while American Steel Foundries has more than fulfilled expectations. That is true, but only partly explains the situation.

Indeed, Crucible has paid no dividends on its common shares but neither has Baldwin Locomotive for that matter, and yet Baldwin has made a far better market showing than Crucible and is even now selling above American Steel Foundries. Again it is true that Crucible's earnings have been disappointing in so far as the wild rumors which accompanied its 1915 rise are concerned, but apart from that the results have been decidedly satisfactory. As a matter of fact Crucible common has consistently earned more a share than American Steel Foundries. Reference to Table II will bring out these points clearly enough.

TABLE I

AMERICAN STEEL FOUNDRIES—CRUCIBLE STEEL

Price Range of Stocks

	Amer. Steel Foundries		Crucible Common	
	High	Low	High	Low
1913	40½	25	17⅝	11¼
1914	37½	27½	17	11½
1915	74½	24⅛	109⅞	18¼
1916	73	44	99½	50¼
1917	75	50⅛	91⅞	45¾
1918	83	58	74⅞	52

What then is the true explanation of Steel Foundries' attainment to semi-investment rank while Crucible Steel lingers in the speculative class? Let us go to the bottom of the matter.

Effect of Crucible's War Earnings

Looking back over the last ten years we shall discover just how and why this seeming paradoxical situation has developed.

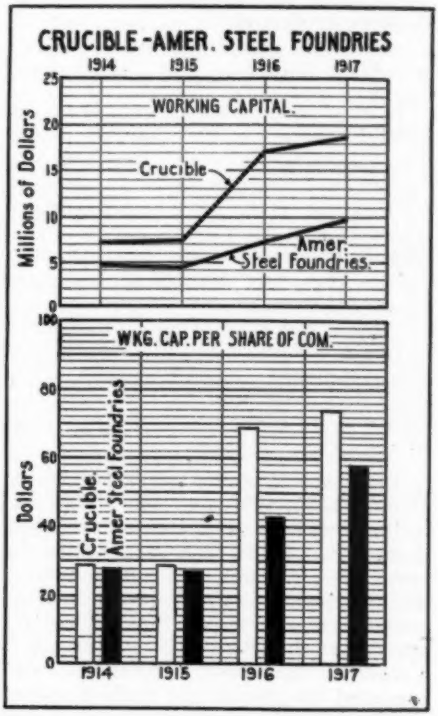
Crucible Steel's capital in 1908, stood about as it does today. But the $25,000,000 preferred stock was then part water. In 1914 only 4.06% was earned on this issue. At that time 17¾% in back divi-

dends had accrued. During the previous five years the company had succeeded in stopping accumulations by paying the regular 7%, but in 1915 its resources were so strained that it had to give up the fight and suspend payments on the preferred shares altogether, notwithstanding that earnings of 12.29% were returned in that year. The earnings, however, were deceptive, as they had been all along, for Crucible's depreciation charges were constantly skimped during the years prior to 1916.

In 1916 came the windfall of war profits. The Crucible Steel Company found itself, even with its poorly maintained plants, almost alone in the field for supplying a kind of steel which was suddenly in urgent demand for munition manufacture, and for the making of high grade machine tools. Price was no object to those who wanted what the company could supply and it got all the orders it could handle at practically its own figure.

It is well to bear in mind throughout that nothing short of the unparalleled war situation could have brought about the marvelous and sudden change in Crucible's earnings which then took place. The total income before depreciation and interest charges in the fiscal year ending August 31, 1916, was $16,528,000 or eight times that of 1914, and nearly two and one half times that of 1913—the best previous year in the company's history. In the following year, 1917, total income again topped $16,000,000. Thus in two years the company earned $32,600,000, an amount equal to the entire par value of its preferred stock with about $28 a share to boot—more than it had earned in the ten years preceding.

But, out of this $32,600,000 came some $6,000,000 as depreciation and contingency charges, part of which was really accrued depreciation; about $1,000,000 bond interest; and $9,600,000 in preferred dividends, over $6,000,000 of which represented the 24¾% in accumulations from other years. Consequently, but $15,700,000 was left for surplus. This was a tidy sum to be sure, but when it is considered that very little of it represented cash (in fact Crucible's cash had increased only $1,700,000 in the two years) and that most of it went into inventories and new plants at inflated war valuations, and, moreover, that there was not deducted from 1917 earnings any reserve for war taxes which accrued during the last seven months of the company's fiscal year; it would seem that very little permanent equity value was added to the common. In effect the water was just about squeezed out of the preferred and the common was simply



moved up to the point where future surplus earnings properly could be credited to it. This left the common stock in the position of still being almost entirely water and dependent on the continuance of abnormally prosperous conditions for a few years, if it was to earn enough to be established as a dividend payer.

As to its prospects in that direction however, we shall leave them for discussion further on, and now look into the

status of American Steel Foundries as contrasted with Crucible Steel during the period just under review.

From 1908 to 1915, Foundries common differed from Crucible common only in the proportion of water it contained. As we have seen, Crucible was virtually all water. Foundries was but slightly better off. But a comparison in order to be relevant should be made with Crucible preferred because of there being only one class of American Steel Foundries stock with practically the same claim on earnings and assets as Crucible preferred.

Steel Foundries and the War

In this position then, was American Steel Foundries at the outbreak of the war. Like Crucible, the company received heavy war orders and began to turn its operations to a large profit. These profits, after bond interest, were directly applicable to the common stock just as they were directly applicable, in Crucible's case, to the preferred stock. What was the consequence? Instead of having to pay off an accumulation of preferred dividends, American Steel Foundries had the money to put into new plants, or to retire bonds, or otherwise, to strengthen its position.

Total income in the two years ending December 31, 1917, was about $13,560,000. Of this, $1,657,000 was charged to depreciation, $2,287,000 was reserved for taxes, $477,000 was paid out in interest and $1,244,000 in dividends—a total in round figures of $5,660,000. This left approximately $8,000,000 or nearly $50 a share for the stock. Allowance for depreciated inventories and deflated values of new plants after the war would reduce this amount, but not in equal proportion to the reduction from the same causes, in Crucible Steel's stock equities. For instance most all of Steel Foundries' surplus can be accounted for by increases during the two years in current assets, which have practically a stationary value as follows: Cash, $544,000; Investments (representing chiefly Liberty Bonds), $1,134,000; Accounts receivable $5,487,000; Prepayments, etc., $126,000; Total, $7,291,000. In similar items, Crucible showed an increase of approximately $10,000,000 against its surplus of $15,700,000.

Recent Results

We have now to consider what each company has accomplished since the date of its last annual report, and what its prospects are from now on.

Crucible issues a report but once a year and there has been very little data of a strictly authentic nature concerning operating results since the report was issued for the 1917 fiscal year ending August 31. There is substantial basis, however, for the statement that the company's new construction work during the fiscal year just closed, cost over $5,000,000. Preferred dividends were $1,750,000. Taxes for the calendar year 1917 may be figured conservatively, at $5,000,000 and, on the assumption that earnings have continued at the same rate as shown last year, we may add another $5,000,000 for taxes accrued during the first seven months of 1918. It is not likely that depreciation will be as heavy as last year so we will place that item at $2,000,000, and bond interest at $500,000. The total

TABLE II

AMERICAN STEEL FOUNDRIES—CRUCIBLE STEEL

Comparative Earnings and Dividends

	Amer Steel Foundries (Year ended Dec. 31)		Crucible Steel (Year ended Aug. 31)			
	Earn. per share	Divs.	Earn. per share pfd.	Divs. pfd.	Earn. per share com.	Divs.
†1909	$0.11	$—	$8.25	$2.25	$1.24	—
†1910	6	2.50	14.47	7.38	7.39	—
‡1911	—	3.75	10.23	7	3.37	—
1912	4.53	—	13.70	7	6.81	—
1913	6.01	2	19.62	7	12.84	—
1914	—	2	4.06	7	—	—
1915	—	—	12.29	—	5.39	—
1916	19.89	1.25	52.89	8.50	45.89	—
1917	30.19	6	49.12	30.25	42.12	—
1918 (est).	20	*7	26	7	19	—

*Also extras.
†Years ended July 31.
‡Covering 17 months ended Dec. 31.

of all these is $19,250,000 which is of course considerably in excess of the assumed gross earnings of $16,000,000. No such total would be properly chargeable against the earnings of the year, however, as the cost of new plants would be chargeable to capital account and about $3,000,000 of the 1917 taxes would be chargeable to the 1917 fiscal year. Eliminating these items we should have a surplus of about $4,750,000 as representing earnings on the common stock. That would equal 19%.

Crucible's Dividend Prospects

But it isn't so much what Crucible earns as what it will have available, that will decide the question of paying dividends on the common.

We must conclude, therefore, that there is not much chance for dividends this year. If the war ends suddenly the company would suffer a big loss of business and it is more than likely that the loss would be heavy enough to offset in earnings, a large reduction in taxes, for a time at least.

But if the war lasts another year, Crucible common has a fair chance of going on a dividend basis in 1919. It is this possibility and the mystery surrounding the showing to be made by the forthcoming annual report, coupled with the fact that the stock can be depended on to attract a following, that put the shares in a favorable light for a rise at this time. Analysis of the recent transactions from the tape supports this conclusion because accumulation is strongly suggested.

With American Steel Foundries the dividend is actual not prospective, at the regular rate of 7%. The company has just declared an extra dividend of 1¼% in Liberty bonds. This constitutes the "good news" on which the rise of 25 points from the low price of the year was partly predicated.

Keeping up its splendid record made since the war, the company has reported net earnings for the first half of the current fiscal year, in excess of any previous record. The figures were about $3,000,000 after deducting taxes on the basis of the 1917 law, or at the rate of 34½% annually. Doubtless taxes will be much heavier under the new law but allowing for the most drastic difference, earnings should exceed 20%.

The after the war outlook is promising in the extreme. The company, as a manufacturer of railroad equipment accessories, is in a favorable position to sustain earnings from this source since the demand for all equipment lines will doubtless continue urgent for years after the war. The company's shell plants can be readily readjusted for the manufacture of regular lines when the present war demand ceases. Another important line for which there ought to be a continued demand for some time to come is ship castings and other parts.

All in all there is no reason to fear a loss in earnings through idle plant capacity after the war, while the remission of taxes will free a large additional amount of earnings. The stock's investment status and outlook is therefore good and its possibilities appear to have been by no means exhausted. The specvestor may tie to it with confidence.

CREED FOR AMERICANS

I believe that the cause of the United States and the Allies is a just cause and makes for righteousness.

I believe the Kaiser and the Potsdam gang cannot make a treaty we have any right to approve.

I believe we do not discharge our duty to ourselves and the world till we have fought this war to a victory over the Kaiser and the Potsdam gang and the German Government as it is at present constituted.

I believe all our energies during the next three years should be devoted to raising an army of 5,000,000 men and the ships necessary to transport them to France, and the supplies necessary to them to fight this war.

I believe we are going to win this war.

—Former President William H. Taft.

Southern Railway's Peace Prospects

Present Position of Company Under the Government Contract—Its Prospects After the War—To What Extent Will its Stocks Discount the Approach of Peace?

By WILLIAM T. CONNORS

THE position of Southern Railway's securities is established until 21 months after the end of the war by the contract between the Company and the Government. This contract will assure the road of a net income applicable to the preferred and common stock of somewhat over $7,000,000. Without any deduction for income tax, this would equal about 11½% for the preferred stock, and would leave about 3.3% for the common after deduction of the dividend on the preferred.

However, we must figure on an income tax of perhaps 12%. If this is applied to the total income of the Company before deduction of bond interest, it will reduce the per cent earned for the preferred stock to about 8, and only a fraction over 1% would be left for the common.

Southern Preferred as an Investment

Under these conditions, there seems to be no reason to doubt that the present 5% dividends on the preferred stock will be continued. The present price of the preferred is 64½, which gives an income yield of 7¾% on the investment. With the position of the Company stabilized by the Government contract, it is evident that the preferred stock of this Company affords an excellent investment.

But recent events on the Western Front indicate quite plainly that the investor should now be looking forward toward the end of the war. We know that the Teutonic nations, while they have kept up a brave showing on the battle front, are economically little better than a hollow shell. The question of when the war will end depends upon how long this shell can be kept strong enough to resist the growing power of the Allies. There is a considerable possibility that when it once begins to crumble, events may move much more rapidly than any of us now dare to hope.

Even if this point of view should prove to be too optimistic, it is nevertheless clear that the turn of the tide is past. From this time forward, we shall be moving toward peace, whether that movement be fast or slow. As a rule, the security markets proceed to discount any future event which can be counted upon with reasonable certainty. In a broad way, therefore, we may assume that during the remainder of the war, the prices of the best railway stocks, whose dividends are amply protected under the Government contracts, will gradually discount those conditions which investors believe are likely to prevail after the war. There is no reason why such stocks should suffer any considerable decline in view of the fact that the Government is standing behind them. If their status after the war seems likely to be satisfactory, the natural thing to expect is a gradual movement of prices toward the plane which will adequately represent that status.

The law under which the Government took over the operation of the roads, contemplates the return of the roads to their owners in at least as good condition as when the Government took them over. There is, of course, a possibility that permanent Government operation or ownership in some form may later be decided upon. In that case there can be no question that the owners of railroad securities will be properly protected.

But permanent Government operation is hardly a probability. It seems likely that the Government will have

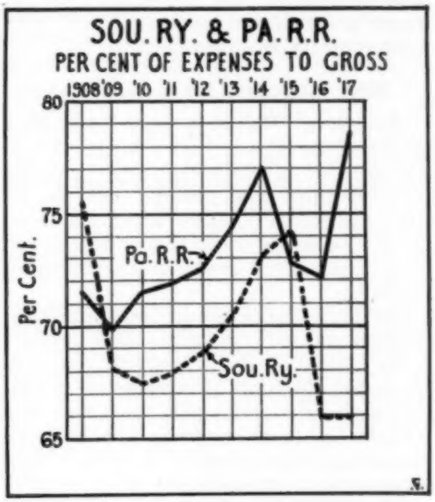
troubles enough after the war without assuming the problems of the railroads in addition. During the war it has been necessary for the Government to a very great extent to assume the control of industry in many lines. This omelet will have to be unscrambled when peace comes. Our millions of soldiers will have to be brought back from Europe and plans will have to be devised to enable them once more to find their places in organized industry. In order to prevent business depression during the readjustment to a peace basis, it will be necessary for the Government to let go its hold of the industrial situation very gradually. Doubtless one result of the war will be a considerable extension of permanent Government control over industry, but it is very doubtful whether Government operation of the railroads can be successfully added to all of the other necessary burdens.

Southern Railway After the War

Assuming, therefore, that Southern Railway reverts to its owners twenty-one months after the end of the war, what will be the general position of the property at that time? The period of Government control can hardly be less than two and one-half years, and may be considerably longer. During that time great changes might occur.

Southern Railway has the very great advantage of gridironing a territory whose natural resources are now less developed than those of any other large section of the United States. The road covers practically the whole of the old South east of the Mississippi River. The splendid natural resources of this region leave an almost unlimited opportunity for growth. Southern manufacturing, now almost in its infancy, will advance by leaps and bounds. Diversified agriculture, now just getting a good start in Southern territory, will mean millions of additional income for Dixie Land. In the longer future, therefore, Southern Railway must benefit from the growth of its territory to a greater extent, perhaps, than almost any of our other great railway systems.

The progress of the company is plainly indicated by the two graphs which accompany this article. The per cent of expenses to gross earnings is one of the best indications of prosperity and economical management. During a time when all railroad expenses have been rapidly mounting, the Southern is one of the few systems on which gross earnings have risen with equal rapidity. It will be noted from the graph that in 1916 and 1917



the per cent of expenses to gross was actually lower than at any previous time for ten years.

In order to show the difference between operating results on the Southern and on some other roads, the same figure for Pennsylvania Railroad is also shown on the graph. The contrast is striking. The gross earnings of both companies have risen rapidly, but Pennsylvania's expenses have advanced still more rapidly, so that the per cent of expenses to gross is now much higher than in the earlier part of the decade. On the Southern, however, the tendency has been exactly the reverse.

The other graph shows the rapid rise in the per cent earned on Southern Railway's preferred stock. From prac-

tically nothing earned for this issue in 1908, when operating conditions on the Southern were in a state bordering on demoralization, earnings rose steadily until 1913, when they equaled almost 12% for the preferred. The war panic and the sharp falling off in European demand for cotton caused a sharp drop in earnings and the management of the road conservatively decided to suspend dividends on the preferred stock. But in 1916 and 1917 the rebound was extraordinary. In the latter year 20.6% was shown for the preferred and the resumption of dividends at the 5% rate was entirely warranted.

Why Expenses Have Not Risen

Southern Railway has one very great advantage in that a large part of its mileage is more than adequate for the business now passing over it, so that additional business which develops with the growth of the country will not require any great enlargement of facilities.

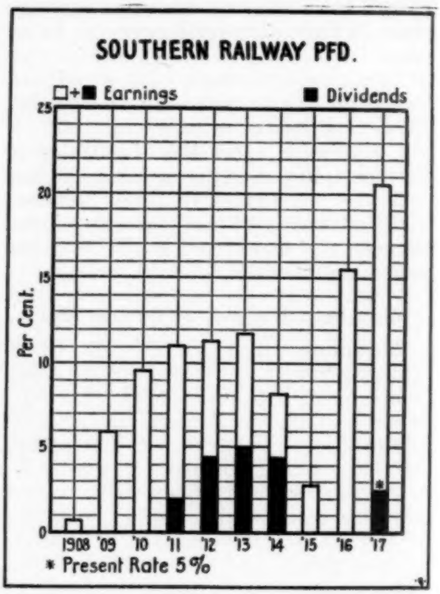
In 1917 the Pennsylvania Railroad hauled an average train load of 872 tons. Such a train load as that approaches the limit of economical handling of freight under present conditions. On the Southern, however, the average train load was only 373 tons. That represented an increase of nearly 70 tons over the corresponding figure for 1915, but at the same time it left ample room for a further increase. The Southern has a large number of branch lines on which freight traffic is now light. These branches could haul nearly double their present freight with but very slight increase in expenses.

We may reasonably expect, therefore, that the Southern Railway will emerge from Government control after the war in substantially the following position:

First, it will have had the advantage of another three years of growth of its territory as compared with the very gratifying results shown in the year 1917.

Second, it will be in a position to handle this additional business without any undue expansion of expenses.

Third, the condition of the road will probably be better than it was when the Government took it over. Southern's applications of earnings to maintenance of its property have during recent years been large, and while it is possible that these improvements may be somewhat cut down under Government operation, it is to be expected that they will be kept up on a sufficient scale to prevent the property



from going down hill and probably to result in some further progress.

As bearing on this question of the condition of the road when the Government is through with it, it is important to note that the average per cent earned for the preferred stock is likely to exceed the 5% dividends by at least 3% on the stock, or about $1,800,000 annually. It is not probable that dividends will be paid on the common during the war. Therefore, under the Government contract, the road will presumably be assured of the above sum beyond its dividend payments, and that sum can be applied to improvements on the road and its equipment if labor can be had to do the work. Any

part of the $1,800,000 not so applied will be added to the road's surplus and will thus be available for future use.

Conclusion

In the Aug. 17th issue of THE MAGAZINE OF WALL STREET there appeared a very suggestive article on Southern Railway's bonds. It remains to be noted that since the position of the preferred stock is so thoroughly satisfactory, the position of even the junior bonds and notes is also satisfactory. The general 4s yield 6.7% at the current price of 63 and are an exceptionally good long term bond for that yield. The 5% notes, due March 2, 1919, yield about 7¼%, and afford an excellent opportunity for the temporary placing of funds.

The preferred stock has more room for an advance in price than the bonds, and I believe it is entitled to sell on a lower yield basis than the present yield of 7¾% at 54½. On the basis of the factors above explained, the common stock should some day sell much higher than its present price of 24, but how long the investor will have to wait for dividends it would be idle to attempt to predict. Carrying a non-dividend-paying railroad stock pending the development of territory often proves a longer job than expected.

TAILOR-MADE SHIPS

WHEN the first lot of steel plates for a fabricated ship arrived at one of our big new shipyards on the Atlantic coast last winter a Lloyd's inspector, familiar with British shipyard methods, came to a Shipping Board engineer in some excitement.

"Would you mind stepping down to look at this material?" he said. "I've never seen anything like it. Every plate arrived, with holes punched in Indiana, and yet when they set up the work every hole fitted exactly. I must say, sir, I consider it extraordinary."

Probably without knowing it this worthy shipbuilding expert had encountered one of the two new factors in American shipping that are going to keep our merchant fleet on the ocean. For the first time he had laid eyes upon the product of American bridge template maker, which is now being applied to shipbuilding with remarkable possibilities in cutting costs.

Both ships and steel bridges are made somewhat like gowns. They are cut out of great steel plates a quarter inch or more in thickness and 60 feet long, as they come from the rolling mills. A gown is cut by paper patterns, and so are ships and bridges. The dressmaker fits the gown to milady, but the mold-loft experts at a shipyard or bridge shop lay out their structure in paper patterns that give actuality to the design of the ship or bridge as drawn on paper. A shipyard mold loft is a vast room, long and wide enough for building a paper ship in exact size on the floor.

This paper ship is cut up in pieces, just like a dressmaker's pattern. Each piece represents a steel plate. The template maker then fashions his template for each section of the ship. This template is a light wooden frame made to the size and shape of the steel section, and round its edges each hole required to rivet the ship together is indicated, fitting each hole in adjoining plates. When the templates go to the punching shop they serve as patterns for cutting and punching the steel fabric from which ships are made, so it can be riveted together. Ordinarily ships have been cut singly, on the tailor-made idea. Each ship has been an individual design, and all its fabric specially cut and riveted together like a hundred-dollar suit. Patterns for one ship were seldom used for another.

The fabricated ship simply applies the ready-made idea to this industry, with parts cut out as one sees cloth cut in great clothing factories, a hundred layers at once. Thus, the original templates for a fabricated ship serve to cut 50 or 100 ships or 1,000, should one want to order than many.—Edward N. Hurley in *The Saturday Evening Post.*

Industrial Earnings, Dividends and Income Yields

In view of the wide discrepancy between present industrial earnings and last year's—chiefly because of the unsettled conditions resulting from the war—our usual "Bargain Indicator" has been modified as below. The *dividend rate* given covers regular declared dividends on the yearly basis. Extra or stock dividends are noted from time to time in the comment column on the right, which also summarizes important price-affecting factors. The *yield on price* is based on regular dividends and the last reported sale or bid price before going to press. A minus sign before earnings' columns indicates a deficit for the year in dollars per share.

Companies Which Have Reported for 1917.

	Dollars Earned Per Share.						Present Div. Rate.	Recent Price.	Yield on Price.	INTENDING PURCHASERS should make careful Comparisons, including former years. They should also read the "Investment Digest" for additional information. If a yearly subscriber, our Inquiry Department may be consulted.
	1912.	1913.	1914.	1915.	1916.	1917.				
Allis Chalmers pfd	.....	4.77	—0.15	6.80	19.97	24.36	$7	84	8.33%	Booked for year.
Amer. Agri. Chem. com.......	7.34	5.23	7.68	10.96	20.57	21.11	6	98	5.10	Large orders.
Am. Beet Sugar com..........	13.50	3.87	2.29	8.68	19.17	38.84	8	70	11.43	Beet shortage effective.
Amer. Can com...............	8.86	5.21	3.61	5.20	12.31	21.84	0	47½	0.00	Government orders. Record output.
Amer. Car & Foundry com....	2.46	4.10	5.53	0.77	2.39	27.36	8	87	9.19	Record prosperity. Large surplus.
Amer. Cotton Oil com..........	6.49	3.38	1.98	7.05	6.99	4.56	4	43	9.30	Earnings increase.
Amer. Hide & L. pfd..........	3.37	3.79	0.85	7.65	13.10	14.17	5	92½	5.41	Paying off back dividends on preferred.
Amer. Linseed pfd.............	—2.85	2.96	1.83	6.01	8.83	10.53	7	78	8.96	Earnings large.
Amer. Loco. com..............	0.47	17.74	1.30	13.00	36.07	21.81	5	68	7.35	Earnings large. Expansion of plant.
Amer. Smelt. & Ref. com......	11.47	7.47	6.51	17.15	31.79	24.14	6	80½	7.45	Earnings improving.
Amer. Steel Foundries	4.53	6.01	—1.35	—1.20	19.89	24.49	7§	82	8.41	Dividend increase warranted.
Amer. Sugar Ref. com.........	5.34	—0.25	4.82	4.99	11.48	11.25	7**	109	6.43	Price restriction felt.
Amer. Tobacco com...........	30.42	28.12	21.04	20.06	22.70	25.21	20	162	12.34	Dividend safe by good margin.
Amer. Woolen com............	2.09	—9.89	—0.06	6.40	15.31	40.42	5	57½	8.69	Company strongly entrenched. Good earnings.
Amer. Zinc com...............	8.59	—4.65	1.82	109.65	187.48	21.78	0	17⅝	0.00	Nearing capacity production.
Anaconda Copper	7.32	5.22	3.77	7.16	26.80	14.72	8	69½	11.51	Large Government orders.
Baldwin Loco com.............	11.49	13.09	—5.25	7.14	6.09	40.22	0	94	0.00	No immediate dividend prospects.
Barrett Co. com...............	10.55	10.80	10.31	20.42	32.38	20.61	7	93	7.53	Earnings well up.
Bethlehem Steel com..........	6.86	27.45	30.59	112.49	286.30	44.20	10	86½	11.56	Near capacity production.
Burns Bros. com..............	.....	3.63	4.84	9.08	10.03	17.99	10	149	6.71	Earnings large.
Butte & Superior	.....	3.47	5.21	33.47	30.58	.94	0	27	0.00	Earnings on the increase.
Cal. Petroleum pfd	.....	11.59	11.36	6.15	8.07	11.61	7	64½	10.85	Big improvement in earnings.
Central Leather com...........	8.58	5.18	6.41	10.82	33.14	30.41	5	69	7.25	Government business.
Chino Copper	2.80	3.51	3.44	7.65	14.40	11.27	4	40½	9.88	Output increased.
Col. Fuel & Iron com..........	3.93	3.21	4.79	4.58	5.96	11.15	3	48	6.67	Company increasing capacity.
Continental Can com..........	.....	4.88	10.69	12.05	22.38	29.36	6	72	8.33	Government orders.
Corn Prod. Ref. pfd...........	6.43	8.68	9.26	12.64	17.76	38.05	7	100	7.00	Food products sales increase.
Crucible Steel com............	6.82	12.84	—2.64	5.39	45.89	42.13	0	69	0.00	Larger equity in property.
Cuba Cane Sugar com..........	.....	.....	.....	.....	17.36	.....	0	31	0.00	Sugar situation improving.
Distillers' Securities	1.71	1.17	2.28	4.64	4.10	14.83	2§	57	3.51	Possible liquidation.
General Chem. com............	21.72	19.19	18.72	44.26	86.76	55.19	8	180	4.44	War earnings large.
General Electric	12.43	12.88	11.12	11.56	18.31	26.50	8	148	5.40	Good business.

Cuba Cane Sugar com	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Distillers' Securities	1.71	1.17	2.28	4.64	4.10	14.83	28	57	3.51	Possible liquidation.
General Chem. com	21.72	19.19	18.72	44.26	86.76	55.19	8	180	4.44	War earnings large.
General Electric	12.43	12.88	11.12	11.56	18.31	26.50	8	148	5.40	Good business.
Goodrich (B. F.) com	3.34	1.11	4.12	15.68	12.76	14.49	4	46½	8.60	Sales increasing.
Great Northern Ore	1.75	0.71	0.54	0.70	1.30	.....	0‡	33¾	0.00	Excellent percentage of return from ore.
Greene Cananea Co	4.31	2.33	1.97	1.04	7.03	.....	8	45¼	17.64	Increasing production.
Gulf States Steel com	.....	.....	.....	10.17	28.77	32.76	10	85	11.77	Earnings large.
Inter. Agri. Corp. pfd	11.12	—1.24	0.65	—0.47	9.80	9.31	5	62	8.06	Financial outlook bright.
Inter. Har. N. J. com	.....	14.54	13.41	16.19	21.46	29.77	7	127	5.51	Satisfactory settlement of suit.
Inter. Mer. Mar. pfd	7.32	4.45	—0.58	26.26	42.10	.....	5	102	5.88	Possible liquidation.
Inter. Nickel com	6.57	2.95	2.80	3.33	6.70	7.78	4	29¾	13.45	Earnings decreasing.
Maxwell Motor com	.....	.....	0.30	5.33	29.10	29.62	0	26½	0.00	Government orders.
Mex. Petroleum com	5.91	11.22	4.78	4.93	15.79	.....	8	104	7.69	Mexican situation satisfactory.
Miami Copper	2.81	1.75	1.65	4.55	10.39	4.28	4	29	13.78	Record production of copper.
Midvale Steel	.....	.....	.....	1.44	31.46	35.58	6	54	11.11	Booked for year. War products.
Nat. Biscuit com	10.05	9.59	11.74	9.52	8.19	9.87	7	96	7.30	Peace stock.
National E. & S. com	—1.54	1.13	—0.32	2.10	12.74	23.39	6	52	11.54	Large earnings.
National Lead com	3.81	3.64	3.73	4.86	6.16	15.44	5	59	8.47	Nearing capacity.
Nevada Cons. Cop	2.17	1.45	0.74	2.78	7.50	4.83	3	21	14.28	Production increased.
New York Air Brake	5.72	6.55	6.41	13.43	82.15	18.94	20	125	16.00	Good earnings.
Pittsburgh Coal pfd	7.48	10.07	5.06	6.11	11.64	.....	6	84	7.17	Coal price regulation.
Pressed Steel Car com	0.76	10.56	0.14	3.60	15.01	10.00	8	71½	11.19	Large orders.
Pullman Co.	8.69	9.28	9.04	8.80	10.32	11.36	8	114½	6.98	Overcoming obstacles of labor.
Railway Steel Spring com	5.77	1.31	—0.42	3.10	20.49	32.31	5	69½	7.19	Repair business heavy.
Ray Cons. Copper	1.33	1.49	1.29	2.73	7.43	6.15	3	24½	12.24	Increased production.
Republic Iron & Steel com	3.54	4.97	.56	6.49	47.95	51.88	6	93½	6.42	Earnings large. Taxes overestimated.
Sears, Roebuck com	19.34	21.17	21.31	17.57	25.86	18.08	8	140	5.61	Record earnings.
Sloss-Sheffield com	0.84	2.09	0.21	0.53	14.44	15.77	6	61	9.84	Company entrenching.
Studebaker Corp. com	4.82	2.48	13.09	26.55	26.25	9.11	4	44½	8.97	Government orders. 90% war work.
Tobacco Products com	.....	2.52	1.98	2.69	5.44	9.32	6	72	8.33	Maintains heavy business.
United Cigar Stores com	.....	6.83	7.09	7.69	9.48	.....	9	104	8.65	Dividend increased. Record sales.
United Fruit	15.28	14.52	6.19	16.11	24.34	26.72	8	130	6.15	Government regulating rates.
U. S. Cast Iron Pipe pfd	6.21	5.28	0.29	1.37	12.12	11.18	5	45	11.11	High prices curtail demand.
U. S. Ind. Alcohol com	5.01	1.94	1.94	14.60	36.13	54.67	16	123	13.01	Large alcohol orders.
U. S. Rubber com	6.31	9.53	8.00	9.51	15.12	28.77	0	63	0.00	Sales increased.
U. S. Smelt. & Ref. com	7.20	5.36	1.60	13.93	20.46	.....	5	43½	11.50	Benefits from high prices.
U. S. Steel com	5.71	11.02	.....	9.96	48.46	46.29	5§	115	4.35	Earnings increase. Tax overestimated.
Utah Copper	5.35	5.05	5.02	10.70	24.10	17.66	10	85	11.53	Expect record business.
Va.-Carolina Chem. com	3.28	0.53	3.40	7.55	10.39	10.92	4	55	7.27	Peace will benefit. Earnings better.
Westinghouse Elec. com	3.20	4.15	5.35	2.43	8.53	12.08	3½	44	7.93	Record war orders. Large cash balance.
Willys-Overland com	.....	4.63	3.75	12.56	5.75	3.16	1	19½	5.13	Dominant position in aeros. War work.
Woolworth (F. W.) com	8.73	10.82	10.87	13.19	15.57	16.72	8	112	7.14	Record sales.

**3% extra in quarterly installments of ¾% each. §Extra dividends. ‡No regular dividend. Has made two distributions of $1 each this year.

Assets Behind American Cotton Oil

Company Has Shown Consistent Earning Power for the Last Twenty-five Years — Over-Capitalized at First — Has Steadily Built Up Assets Behind the Common Stock

By FREDERICK LEWIS

WHILE the American Cotton Oil Co. has never been a very brilliant performer in the matter of earnings, it has been a rather consistent money maker from the time of its incorporation in 1889 to date.

In other words it is a company that has thoroughly demonstrated its earn ing power over a long period of years and in poor, as well as good times has shown substantial profits. This is an important point for the investor to bear in mind when weighing the merits of this company's securities.

The American Cotton Oil Co. was formed by a consolidation of several smaller concerns manufacturing and dealing in the products of cotton seed. The company was largely over capitalized at the start, the common stock representing only such intangible assets as good will, trade marks, patents and processes.

Assets Behind Common

In the twenty-seven years of its existence, however, a considerable part of this water has been squeezed out and the common stock at the present time has about $50 a share of tangible assets behind it. This figure is obtained by taking the value of real estate and plants at the figure it is placed at on the company's balance sheet. It is believed that this is a fairly conservative valuation of the company's properties.

The chief products of the company are cotton-seed oil, cotton-seed cake, cotton-seed meal, linters, cotton-seed hulls, and ashes, as well as refined edible oils and substitutes for lard and butter. The company owns several well known brands, such as "Gold Dust" washing powder and "Copco" and "Fairy" soaps. These brands, through extensive advertising, have become very valuable assets of the company and their sales have been steadily increasing from year to year.

Earnings

The company makes public its earnings but once a year, when it issues its annual report covering the twelve months ended August 31. The latest earnings available, therefore, cover the fiscal year ended August 31, 1917.

TABLE I

AMERICAN COTTON OIL

Dividend Record

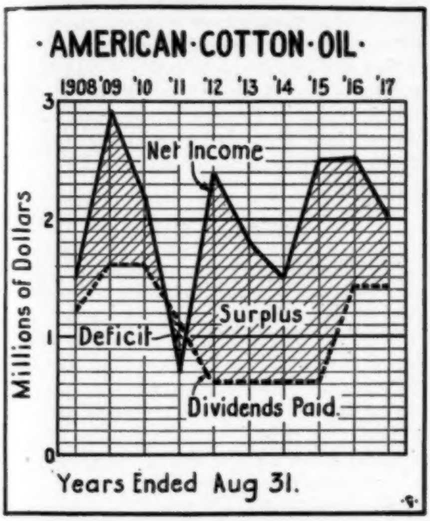
	Com.	Pfd.		Com.	Pfd.
1892 ..	...	3%	1906 ..	2%	6%
1893-7 .	...	6	1907 ..	4	6
1898 ..	3%	6	1908 ..	3	6
1899 ..	4	6	1909-10	5	6
1900 ..	3½	6	1911 ..	2½	6
1901 ..	2	6	1912-14	...	6
1902 ..	4	6	1915 ..	4	6
1903 ..	4	6	1916 ..	4	6
1904 ..	3	6	1917 ..	4	6
1905 ..	1	6	*1918		

*Dividends now being paid at rate of 4% per annum on common and 6% per annum on preferred.

Earnings for this period were not very good being about $500,000 less than they were in the year ended August 31, 1916. Only 4.55% was earned on the common stock, barely enough to cover the 4% dividend.

While the earnings for the year ended August 31, 1918, are not definitely known, it has been officially stated that they will show a substantial improvement over those of the 1917 fiscal year. The company was able to offset

the increased cost of operations by increases in the prices of its products, as well as by increased sales. It is prob-



able that as good a showing will be made in the 1918 fiscal year as in 1916, when 7% was earned on the common stock.

Capitalization

American Cotton Oil Co. is capitalized as follows: Preferred stock, authorized \$14,562,300, outstanding \$10,198,600; common stock, authorized and outstanding \$20,237,100; bonds, \$5,000,000 5s, due September, 1931; notes, \$2,500,000 5s, due September, 1919, and \$5,000,000 7s, due September, 1919. The \$5,000,000 issue of 7% notes was put out in August of this year; the proceeds were used to retire \$2,500,000 notes due September 1, 1918, and the balance for additional working capital.

The financial condition of the company is good although, in view of the fact that it will have \$5,000,000 of notes to take care of in September, 1919, it is hardly in a position to adapt a more liberal dividend policy than its present one. The working capital of the company at the present time is in the neighborhood of \$17,000,000 or \$4,500,000 in excess of the outstanding bonds and notes.

Preferred Stock

The preferred stock is entitled to 6% non-cumulative dividends. In spite of the fact that it is a non-cumulative issue it has a twenty-seven-year unbroken dividend record of 6% per annum (see table I), and in the last ten years the dividend has been earned with a very substantial margin to spare in every year but one—1911. The stock is subject to call at 105 a share and has equal voting power with the common. For the ten years ended August 31, 1917, the annual average earnings were equal to 15.83% on the preferred stock, or over two and one-half times the dividend requirements.

Earnings on the common stock in the last ten years have averaged 4.95% and the dividends paid have averaged 2.35%, so it can be seen that, of the surplus earnings available for common dividends, the company has put slightly more than half back into the property in this period. See accompanying graph.

TABLE II
AMERICAN COTTON OIL
Price Range of Stocks

	Preferred Stock		Common Stock	
	High	Low	High	Low
1901	91½	85	35½	24
1902	99½	86	57¾	30½
1903	98	82	46¼	25
1904	97	82	37⅞	24¼
1905	97	89¼	40⅛	27¾
1906	95	90	44½	28
1907	90	70	36½	21
1908	97	80	44¾	24¾
1909	107¼	98	79¼	42⅛
1910	107	100	69¾	52⅛
1911	105½	92	62⅜	41⅝
1912	99¼	95	60¼	45½
1913	98	92½	57⅜	33½
1914	97⅜	93⅝	46½	32
1915	102¼	91	64	39
1916	102	98	58⅛	48⅛
1917	101½	78	50½	21
*1918	84	78	43¾	25

*Up to September 4.

The American Cotton Oil Co. has refineries, crude oil mills, gins, soap

factories, lard plants, fertilizer plants and seed houses located in various parts of the country, the principal plants being at Atlanta, Ga.; New Orleans, La.; Memphis, Tenn.; New York, N. Y.; Columbia, S. C.; Chicago, Ill.; St. Louis, Mo.; Mobile, Ala.; Cincinnati, Ohio, and Providence, R. I.

7% Notes

The company's recent issue of $5,000,000 7% notes, due September 3, 1919, are an attractive short-term note and can be regarded as a reasonably safe investment. The indenture securing this issue provides that no mortgage lien shall be created or placed upon the property of the company without the approval of the holders of 80% in amount of the notes of this issue then outstanding, and also without providing for the security by such mortgage of all the notes of this issue, equally with all the other indebtedness secured by such mortgage. The strong position of these notes is shown by the fact that working capital, as already pointed out, exceeds the total notes and bonds of the company by several million and by the fact that during the last ten years net earnings have averaged about five times the fixed charges of the company. These notes can be purchased at par.

At present prices of around 84 the preferred stock yields a little over 7%. This stock has net tangible assets behind it of about $200 a share and this fact, taken in connection with the consistent earning power the company has shown for a long period of years, entitles the stock to a good investment rating. As shown by Table II, this stock is not selling much above its record low price of 78 and looks like an attractive purchase at this level for the long pull.

Position of Common

The common stock at present prices of around 44 is selling about 19 points above this year's low record price and should be regarded as a rather risky purchase at this level. The earning power that the company has shown up to date would hardly justify as high a price as this for the common stock, so that at this price the stock has probably already discounted a considerable improvement in earnings. Another industrial stock, selling at around the same price, which would appear to offer better possibilities is Westinghouse Electric. This stock has much bigger equity behind it and its $3.50 dividend is being earned three or four times over.

MARKET STATISTICS

For Week Ending August 28, 1918

		Dow-Jones Avgs.			50 stocks			Breadth
		40 Bonds	20 Inds.	20 Rails	High	Low	Total Sales	(No. issues)
Monday,	Aug. 26	76.51	82.93	86.05	74.20	73.57	438,900	191
Tuesday,	" 27	76.58	83.01	86.09	74.07	73.50	420,100	190
Wednesday	" 28	76.55	83.18	85.93	73.90	73.49	401,400	181
Thursday	" 29	76.53	82.73	85.90	73.63	72.87	384,200	186
Friday	" 30	76.49	82.46	85.88	73.15	72.77	225,900	150
Saturday	" 31	76.51	82.84	86.36	73.48	73.11	160,500	125
Monday,	Sept. 2				LABOR DAY			
Tuesday	" 3	76.51	83.48	86.93	74.15	73.29	503,300	182
Wednesday	" 4	76.54	83.61	86.47	74.24	73.52	556,300	200
Thursday	" 5	76.54	83.63	86.54	74.09	73.44	393,400	191
Friday	" 6	76.48	82.56	85.55	73.91	72.96	821,200	197
Saturday	" 7	76.40	82.91	85.67	73.13	72.72	174,400	139

Railroad and Industrial Digest

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell

Note.—The Railroad and Industrial Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration—Editor.

RAILROADS

ATLANTA, BIRMINGHAM & ATLANTIC—Government Asked Advances—In reply to inquiries by holders of company's 5% non-cumulative income bonds, Columbia Trust Co., New York as trustee, announced that it had been advised that as property had been taken over by Government and no contract had been agreed upon, it is not in a position to file a statement of its earnings; but that it had been negotiating with Railroad Administration in an effort to secure an advance on account of rental, sufficient to take care of the interest. The income bonds were given in exchange for receiver's certificates of reorganized railroad.

AURORA, ELGIN & CHICAGO — Change in Plans—Undertaken to reorganize its securities program as a prerequisite to further consideration by the War Finance Corp. of company's application for a $219,000 loan. Would create a new issue of $1,219,000 3-yr. 7½% collateral trust notes, dated Sept. 1, 1918, and seek to exchange about $1,000,000 of these for outstanding notes due at earlier dates.

CANADIAN PACIFIC — Negotiations for Purchase—Interests have been negotiating in London for purchase of Peninsular & Oriental lines, which run from Liverpool to India. With this connecting link company would have a complete service around the world.

CENTRAL OF GEORGIA—Earnings—For July were $1,765,420 as compared to $1,342,540 in 1917. Net was $393,380 as compared to $368,919 in 1917. Gross for seven months to July 31, was $11,316,515 as compared to $8,519,314 in 1917. Net was $2,168,165 as compared to $2,133,184 in 1917.

CENTRAL OF NEW JERSEY—Earnings—For July were $4,842,290 as compared to $3,397,294 in 1917. Net was $1,697,019 as compared to $1,052,818 in 1917. Gross for seven months to July 31, was $23,928,464 as compared to $20,956,714 in 1917. Net was $2,902,674 as compared to $5,544,385 in 1917.

CHESAPEAKE & OHIO—Interest in Bonds—The most popular bonds among issues are convertible 5s, 1946. They are strongly secured and their convertible feature makes them very attractive. They may be converted into capital stock of the company as follows: From April 4, 1916, to April 1, 1920, at $75 a share; from April 2, 1920, to April 1, 1923, at $80 a share; from April 2, 1923 to April 1, 1926, at $90 a share; from April 2, 1926 to April 1, 1936, at $100 a share. The convertible 4½% bonds are convertible into capital stock of company at par up to and including Feb. 1, 1920; but if called for redemption they may be converted up to and including second day of January or July next preceding date of redemption. In 1917, after payment of fixed charges and taxes, earnings were equal to $11.25 a share, while in 1916 they were equal to $12.21. The rate of dividends on capital stock is 4% annually, but earnings in three years on which Federal rentals will be based would seem to justify larger dividends.

CHICAGO, BURLINGTON & QUINCY—Earnings—For July were $13,325,718 as compared to $10,100,005 in 1917. Balance after taxes were $3,972,697 as compared to $2,329,161 in 1917. Net operating income was $3,961,768 as compared to $2,674,547 in 1917. Gross for seven months was $75,423,315 as compared to $68,979,209 in 1917. Balance after taxes was $10,429,954 as compared to $20,983,186 in 1917. Net operating income was $10,022,495 as compared to $20,568,139 in 1917.

CHICAGO & NORTHWESTERN — Earnings—For July were $12,888,465 as compared to $9,474,420 in 1917. Balance after taxes was $389,415 as compared to $365,012 in 1917. Net operating income was $3,938,520 as compared to $2,271,790 in 1917. Gross for seven months was $64,748,985 as compared to $59,278,225 in 1917. Balance after taxes was $4,658,287 as compared to $12,125,227 in 1917. Net operating income was $5,327,240 as compared to $12,043,884 in 1917.

CINCINNATI, NEW ORLEANS & TEXAS PACIFIC — Earnings — For July were $1,453,328 as compared to $1,013,427 in 1917. Balance after taxes was $389,415 as compared to $365,012 in 1917. Net operating income was $367,114 as compared to $475,-434 in 1917. Gross for seven months was $8,057,447 as compared to $7,426,913 in 1917. Balance after taxes was $1,307,684 as compared to $2,175,176 in 1917. Net operating income was $1,750,517 as compared to $2,-867,978 in 1917.

LEHIGH VALLEY—Collateral Trusts Sold—$15,000,000 ten-year 6% collateral trust bonds will be offered at a price to yield approximately 6⅛%. This is the first financing done by the Lehigh Valley company since April, 1916, when issue of $10,-697,000 of its 4½% general consolidated mortgage bonds was made. As road has no maturities in near future it is understood that proceeds from sale of new bonds will be used for miscellaneous purchases.

NEW HAVEN—Water Routes Essential—Authority was granted by the Interstate Commerce Commission Aug. 29, 1918, to continue its operation of steamer and barge lines through subsidiary companies. The petition had been before commission since Jan. 6, 1914. The subsidiaries are New England Navigation, New England Steamship and New Bedford, Martha's Vineyard and Nantucket Steamboat companies, operating steamers between points in Connecticut, Massachusetts, Rhode Island and New York, and tugs and lighters in New York and Boston Harbors. Under existing conditions commission held that water services are being operated in interest of public and of advantage to commerce and convenience to people. Tariffs of steamship companies must be filed by Oct. 1, 1918.

NEW YORK CENTRAL—Earnings—Gross earnings for July were $26,282,974 as compared to $21,192,032 in 1917. Net operating income was $7,415,989 as compared to $5,643,060 in 1917. Gross earnings for seven months ended July, were $149,-012,328 as compared to $133,672,144 in 1917. Net operating income was $12,044,337 as compared to $26,688,717 in 1917.

NEW YORK, SUSQUEHANNA & WESTERN—Earnings—Gross earnings for July were $344,724 as compared to $316,829 in 1917. Net operating income was $42,458 as compared to $59,668 in 1917. Gross earnings for seven months ended July, were $2,193,415 as compared to $2,065,908 in 1917. Net operating income was $20,189 as compared to $401,170 in 1917.

PENNSYLVANIA—New Shops — Plans to build a one-story machine shop, 80 x 83 ft., at Stoney Creek, Pa. The new plant at Morrisville, Pa., will be used as a molding and manufacturing works for construction of reinforced-concrete girders, beams, slabs, etc. The initial plant will cost about $300,-000, and will be located near site of proposed locomotive works which company is said to be planning in that section.

PITTSBURGH, CINCINNATI, CHICAGO & ST. LOUIS—Earnings—Gross for July, 1918, was $8,898,933 as compared to $6,445,727 in 1917. Net was $2,118,250 as compared to $1,572,973 in 1917. Gross for seven months ending July 31, was $46,049,-901 as compared to $42,100,490 in 1917. Net was $768,743 as compared to $7,139,423 in 1917.

SOUTHERN RY.—Train for Express—Railroad Administration announced establishment of an exclusive train over Southern Ry. for express shipments between Washington and Atlanta, Ga., beginning Sept. 1.

TEXAS & PACIFIC—Freight Consolidation—In conformity with Government administration of railroads, local freight facilities of this company and St. Louis Southwestern Ry. in Dallas, Tex., have been consolidated.

TOLEDO, ST. LOUIS & WESTERN—Earnings—While income account for 1917 showed a surplus, after charges, of only $118,612, equivalent to 1.1% on $9,952,600 pfd. stock, this surplus was reached after including in fixed charges $461,080 accrued on company's A and B gold bonds, in default since Aug. 1, 1914. These are bonds which company issued in payment for a controlling interest in the Chicago & Alton. In pending litigation an effort is being made to invalidate these bonds, which, if successful, would not only free the company from the necessity of paying interest thereon, but would wipe out the accrued unpaid interest amounting to something like $1,500,000. The 1.1%, which income account shows to have been earned upon stock in 1917, compares with 4.33% year before. If effort to invalidate the A and B bonds should succeed, surplus for 1917 would have to be restated as $579,692, equivalent to 5.82% on pfd. stock. Similarly, corrected surplus of 1916 would become $892,883, equal to 8.97% on pfd.

UNION PACIFIC—Earnings—Gross for July, 1918, was $8,732,058 as compared to $6,439,189 in 1917. Net was $4,359,669 as compared to $2,411,799 in 1917. Gross for seven months to July 31, was $48,760,658 as compared to $40,267,761 in 1917. Net was $16,109,451 as compared to $13,424,088 in 1917.

AMERICAN BANK NOTE—Report— For six months ending June 30, 1918, showed record-breaking earnings. In addition to these earnings the report for year will include profits of English subsidiary. The half-year report, just issued, did not include earnings of this company for that period. The balance sheet is void of floating debt of any kind. In March company called for payment the $200,000 notes which were outstanding. These were outstanding balance of $600,000 serial notes issued in 1915. The large earnings for six months' period were mainly due to heavy demand for paper money, which is now practically world-wide. Cash on June 30 was $570,282, which was about $120,000 less than on Dec. 31, 1917. This reduction is small, however, when it is remembered that company paid off $200,000 notes in March and that its inventories on June 30 were about $250,000 greater than Dec. 31, 1917.

AMERICAN CAR & FOUNDRY—New Orders—Took from Government an order for 31,000 cars, largest of kind ever placed. On June 18, or barely seven weeks later, it delivered a sample to Federal authorities, nothwithstanding specifications of standard car naturally differed from usual type and called for many detail changes. Since middle of June company has been making splendid progress, which its initial success indicated it would make with big order. It expects to have last car on rails by early in 1919.

AMERICAN LOCOMOTIVE—Branch—Plans for increasing its manufacturing facilities include an investment of $13,000-000 for a branch at St. Louis. Management had been conferring with War Industries Board relative to financing this new plant, which is expected to furnish many locomotives to Government Railroad Administration. A 200 to 300-acre site employment of 3,000 skilled mechanics and a monthly output of 40 locomotives are under consideration.

AMERICAN SUMATRA TOBACCO—Increase Common—Stockholders approved an increase in authorized common stock from $7,000,000 to $15,000,000. Out of this increase directors would declare a stock dividend of 15%, and, after payment of stock dividend, to offer new stock at par to common stockholders on a basis of one new share for every four of old stock then held. This will increase amount of common stock outstanding from $6,813,000 to $9,795,000. The proposed issue will be submitted to the approval of the capital issues committee.

CENTRAL LEATHER—Profits Indicate Extras—While directors confined their attention to regular pfd. dividends, thereby disappointing some vague expectations of favorable action in way of increased common disbursements, this did not mean that such action is impossible in the near future. The regular declaration of 1¼% on common is not ordinarily due till about a month hence, and by that time a clearer line can be had on the volume of good profits being made.

CUBA CANE SUGAR—Earnings—Estimated earnings for the year ending Sept. 30, 1918, would show at least as much for common stock as in the previous fiscal year, when $7.63 a share was earned on 500,000 shares of no par value, after payment of regular 7% dividend on $50,000,000 pfd. This estimate is subject to revision, as it includes a war tax appropriation equal to that in 1917, although tax will probably be larger in 1918. Dividends on common are not under discussion, owing to needs of business for working capital, plant extensions and improvements. Large amount of money has been put back into property in form of land purchases, new and expensive machinery, and factory improvements. As a result current liabilities are still large, and conservatism calls for their reduction out of earnings before dividends on common are considered. Sugar content of cane for 1917-1918 crop was very satisfactory. Production of raw sugar was about 3,613,000 bags against 3,261,621 bags for previous season.

INTERNATIONAL PAPER—Half Production Sold at Government Prices—Government fixed price for newsprint applied to the country's entire production, but as a matter of fact, price of $3.10 a hundred established by Federal Trade Commission is operative only as to about one-half of tonnage produced in United States and imported from Canada. International Paper Co. is one of companies, and largest which agreed to sell newsprint at figure set by Government. The manufacturers of remaining one-half of total production of two countries are free to charge whatever price may be created by law of supply and demand, and they are now doing it. It is understood that one prominent company is charging $4 a hundred for its paper, or 90 cents more than International can charge.

LACKAWANNA STEEL—Estimated Earnings—For first half of 1918 reported net profits after charges and depreciation, but before deducting Federal taxes, of $12,559,291. Earnings for third quarter are being maintained on about average of the first half. Estimating operating earnings, less charges, etc., at $25,000,000 for full year, Lackawanna will have left for distribution to its stockholders $25.50 a share, after paying a war tax as proposed by House Ways and Means Committee, plus income taxes of 12% on distributed and 18% on undistributed income. This is allowing for dividend distribution at same rate as in 1917, or $12 a share Exemption is calculated at 10% on invested capital, as indicated by last balance sheet. In 1916 earned $34.81 a share and in 1917 $45.89. With earnings of $25.50 a share in 1918, this would mean that Lackawanna will have earned over $106 a share in three

years, carrying a net balance equivalent to $76 a share to surplus after dividend payments aggregating $30 a share.

PIERCE-ARROW—Contract—Awarded a contract to Stone & Webster, Boston, for construction of a new electric power plant at its works, Buffalo, N. Y., to cost about $300,000. In connection with recent contract received for airplane motors of Hispano-Suiza type, company announced that no extension would be required, plant being capable of handling a production of about 50 motors per day, effective Jan. 1, as now planned, with installation of new equipme t required.

RAILWAY STEEL-SPRING—Physical Condition—Strength in common stock followed realization that it is in the best financial and physical condition in its history. The return of peace will find Railway Steel-Spring fully able to adjust itself to normal conditions. The retirement of entire outstanding issue of Inter-Ocean plant 5% bonds on Oct. 1 will leave company with no funded debt and only $13,500,000 pfd. and a like amount of common stock outstanding. Heretofore company was required to set up a sinking fund of $125,000 annually, to be applied to the purchase of these bonds at not over 105 and interest. Now that the bonds are to be retired all surplus income hereafter will be available for dividends. Because of elimination of funded debt, common shareholders are looking forward to an increase in 5% dividends to a 6% annual basis at November meeting.

REPUBLIC IRON & STEEL—Overestimated Tax—Reported Federal taxes of $9,878,657. So far as can be calculated, this company estimated its tax requirements by a liberal margin, probably $6 a share. Invested capital is estimated at around $71,000,000. Giving it lowest exemption, 7%, it would have $4,870,000 free from excess profits taxes. Taxable profits as reported were $25,735,794. On basis of these earnings the total excess profits taxes would have been $7,207,476; income tax, $111,759.

SEARS, ROEBUCK—Review Trade Commission Order—First appeal from a final order of Federal Trade Commission since commission's organization had been taken under the appeal provision of commission act, Sears, Roebuck & Co. of Chicago having formally petitioned the United States Circuit Court of Appeals for Seventh circuit to review commision's order requiring to cease and desist from unfair and misleading advertising.

STUDEBAKER—War Proposition—The situation, which became acute a year previously, when a cut in common dividend from $10 to $4 was ordered, is now well in hand. The accumulation of finished cars and of raw materials has been worked off—the new models happily launched—and bank loans reduced to fairly comfortable proportions. Also a change to a war basis has been effected. Studebaker is devoting something over 60% of capacity to war work. Governm-ntal operations are increasing and by the middle of Winter it will probably be a 90% war proposition.

SUPERIOR STEEL—Redemption of Stock—Gave notice that in sinking fund there is $52,500 applicable to purchase of 1st pfd. stock and $30,000 to purchase of 2d pfd., and that it would apply such funds on Sept. 23, 1918, to purchase of stock at a price not to exceed $110 a share and amount of all unpaid and accrued dividends thereon.

SWIFT—Sells "Ex" Only Cash Dividends—Seems to be erroneous impression among many stockholders that stock soon would formally sell "ex" something or other in connection with the Swift International distribution. Swift stock sells "ex" only the $2 quarterly dividends on Aug. 30. When 15% of Swift stock has been exchanged for an equal par value of Swift International $15 shares, market price of Swift is expected to be lower. Theoretically it should open off after the deal an amount equal to difference between market value of stock retired and market value of International stock distributed.

VIRGINIA-CAROLINA—Earnings—Of cotton oil subsidiary were no small factor in excellent financial showing of this company for fiscal year to May 31, 1918. The entire $10,000,000 stock of Southern Cotton Oil Co. is owned by Virginia-Carolina, so that no income account of subsidiary is made public. It is understood, however, that Southern Cotton Oil Co. earned net after charges of around $3,800,000 in May 31 year, which is equal to $38 a share on the $10,000,000 stock and to $13.50 a share on Virginia's $27,984,400 common stock. In the preceeding year the subsidiary's earnings were equal to 21.4% on its own stock. In 1917-18 Virginia increased its gross sales $39,000,000 to $122,400,000. An important proportion of this gain was contributed by Southern Cotton Oil, whose sales in all probability reached $50,000,000.

UNDERWOOD TYPEWRITER—Output Commandeered by Government—80% of output had been commandeered by Government, while other 20% is being devoted partly to fulfilling orders by companies engaged on Government work.

WESTINGHOUSE ELECTRIC—Balance $13.53 a Share—Gross earnings are running at a rate greatly in excess of any previous record in its history. Sales billed will reach $125,000,000, and may attain an aggregate of $140,000,000. This compares with the former high mark of $95,735,406 in the fiscal year ended March 31, 1918, an increase of $6,195,965 over 1917. Cost of sales in the 1918 fiscal year was $80,225,936, including all taxes. This left net profits of $15,509,470, or 16.2% of gross. Balance available for dividends on stock from earnings for 1919 fiscal year will be $20,250,000, or $13.53 per share, against $10.29 last year.

Public Utility Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell

BIRMINGHAM RY., LIGHT & POWER—Increase Rejected—Voters of Birmingham, Ala., at the recent election defeated the 6-cent fare provision for this company.

BROOKLYN BOROUGH GAS—Temporary Increase Sought—Applied to New York First District Public Service Commission for permission to increase its rate, temporarily, in Thirty-first and Thirty-second Wards, Brooklyn, where it operates, to $1.25 per 1,000 cubic feet, pending a final order in case to be made after commission has considered application in all its bearings. Company also asked that it be permitted to change its standard of lighting from "present 22-candle-power standard now used, to British thermal unit standard under such terms, conditions, and safeguards as the commission shall prescribe."

CENTRAL POWER & LIGHT—Report—Gross earnings for 1918, were $483,073, an increase of $176,168 over 1917. Balance in form of surplus was $90,169, an increase of $30,613 over 1917. The large increase in gross and net is not due wholly to growth of business of plants reporting in 1917, as some additional properties had been acquired in meantime, and their earnings are incorporated in 1918 report.

CINCINNATI TRACTION—New Ordinance Passed—Council passed by a vote of 25 to 3 revised street railway ordinance stipulating a sliding scale system of fares based on cost of service with 5 cents as initial fare. Mayor Galvin announced that he would sign ordinance after which it would become operative Sept. 23 unless stopped by referendum proceedings. These provisions are binding until expiration of revision period, April 27, 1931.

INDIANAPOLIS & CINCINNATI TRACTION—Passenger Decrease—Quarterly statement after an increase in passenger rates was granted the company in January, showed that decreased rather than increased revenues had resulted for period of April, May and June. Total passenger revenue for this quarter in 1918 was $106,288 as compared with $107,256 for same period in 1917. The percentage of decrease is 0.9%. Total operating expenses show an increase of 11.31% for quarter ending June 30, 1918, as compared with same period of 1917. Total gross earnings show an increase of 4.53%. Total gross income, less operating expenses, shows $31,713 as compared with $35,061 for corresponding quarter in 1917. Losses in passengers riding are 19% in April, 20% in May, and 23% in June. The freight business for same months showed an increase respectively of 51, 57 and 65%.

LOUISVILLE GAS & ELECTRIC—Demands for Power—Improvements in both gross and net earnings reflect great industrial activity in Louisville territory. Demands for power are due in large part to heavy requirements of war industries and in addition, Camp Taylor, at which 50,000 are in training, derives its electric energy from the company. Estimated that output of company's steam turbine plant is 25% greater than same time in 1917. Since first of 1918, company has accepted 145 new contracts, calling for 6,250 horsepower. Practically all of this is permanent business, and not dependent upon a continuance of Government war orders.

MASSACHUSETTS NORTHEASTERN—Increase Sought—Made application to Interstate Commerce Commission for increased commutation fares, asking increases from $2 to $2.25 in 20-ride tickets from and to points located between Merrimac, Mass., and Amesbury, over Salisbury town line between Amesbury and Newburyport, over Newburyport town line between Newburyport and Seabrook, New Hampshire.

PEOPLE'S GAS—Rate Appeal—Circuit Court of Sangamon County, Ill., would review evidence and determine whether company should be allowed to increase its rate approximately 28%. Attorneys for City of Chicago appealed Aug. 30 from decision of State Utilities Commission.

PORTLAND RY., LIGHT & POWER—Rates Suspended—Public Service Commission of Oregon has issued an order suspending a 25% joint rate increase of Portland Ry. Light & Power Co., Portland, Ore., and Willamette Valley Southern Ry., Oregon City, Ore. The suspension is for 90 days or pending a hearing to ascertain if rate is justified.

THIRD AVENUE—Union Efforts Defied—Following an attempt to tie up system by a strike as result of alleged discharge of employes wearing union buttons, Pres. S. W. Huff ordered distributed among the men a statement signed by himself, in which he asserted that the company was fully protected in its right not to recognize the organization controlled by "outside agitators."

UNITED RYS. & ELECTRIC—Fare Increased—Fares on the street railways in that city and suburbs would be increased from 5 to 6 cents starting October 1st. Was stated that increased wages and higher cost of materials made this change necessary.

MINING AND OIL

The Dying Federal Mining Which Refuses to Expire

Earning 11% on its Preferred Stock—Improved Recoveries at its Great Morning Mine—New Properties Acquired—Status of Stocks

By JAMES SPEED

SEVERAL years ago the financial doctors gave decision on the Federal Mining & Smelting Company and the verdict was unfavorable. Federal was a dying property they said and in a very few years at the outside it would become one of the host of great memories of the Coeur d'Alenes. Its disease was the one which eventually all mining properties incur—exhaustion of ores. Its Mace mines were at their last gasp and in December of 1917 the profitable ore in both Green Hill and Federal territory was exhausted, the property closed down, the pumps brought to the surface and stored, and the other machinery dismantled.

Federal's Wardner property was in hardly better shape and at the time of the last annual statement showed on January, 1918, but 8200 tons of milling ore blocked out. It was stated that the mine was practically exhausted and would probably be closed down this year. This has since been done.

When the verdict was reached that Federal was nearing its end there remained two chances for the famous old property. One lay in its Morning mine and the other in the possibility of acquiring properties which would give Federal a renewed lease of life.

Federal Mining & Smelting was incorporated in 1903. Its great years were 1906 and 1907 when 22.3% and 21.1% on the preferred stock were shown respectively and 31% and 28% on the common stock. In those two years Federal common sold up to nearly 200 and was one of the most active stocks on the list. The next three years show much less earnings as may be seen by the table that follows, but in 1910 the company showed 10.3% on its preferred stock and 6.7% on the common. From then on Federal's earnings declined sharply to wit:

	Preferred		Common	
	Earned	Paid	Earned	Paid
1907	21.1%	7 %	28.2%	18 %
1908	8.8	7	3.8	1½
1909	9.8	7	5.7	1½
1910	6.1	7	.....	....
1911	10.3	7	6.7	....
1912	7.4	6¼	2.4	....
1913	7.3	6	2.6	....
1914	4.6	5	.....	....
1915	2.5	4	.....	....
1916	7.2	4¼	.5	....
1917	Not reported			

A Valueless Report

If it was the intention for the Federal Mining & Smelting management to keep its stockholders in the dark as to what actually took place during the year 1917 the so-called 1917 annual report is well adapted to that purpose. Operating profits by mines are given and compare very favorable with preceding years, but in view of the fact that no other details of income are given and that the stockholder has no means of knowing what constituted charges for depreciation, or what other income the company received, there is no data upon which to determine what the company earned on its stocks. The report states: "Owing to the fact that our books at this writing are being carefully readjusted in accordance with the Government requirements neces-

sary to show 'Ore Depletion Reserve' it is impossible for us to send out a full Treasurer's report" and added that the regular balance sheet would be forwarded with the next quarterly statement. The next quarterly statement, however, contained no balance sheet nor the quarterly statement following. Doubtless, the Federal stockholder has queried why this particular company seems to be in a special class in its inability to give its owners any adequate idea of how their property has fared in its last fiscal year.

The tabulation of profits earned by Federal's principal mines which we give herewith throws some light on the 1917 results.

avail. Thousands of dollars were spent and the best metallurgical talent, including that of Thomas A. Edison, was invoked without obtaining the results desired. In his last annual statement to the stockholders president Brownell stated, "Developments during the last year were very satisfactory. The 2,000 foot level has been sunk and has disclosed much additional ore. The mine seems to grow better with depth." And again, "The company's operations are now substantially confined to the Morning Mine which contains a large body of complex ore. Our milling and metallurgical processes have been greatly improved in the last year or two."

EARNINGS OF FEDERAL'S PRINCIPAL MINES

Year	Wardner	Morning	Mace	Total
1913	126,943	311,602	15,150	453,695
1914	81,928	106,778	....	188,706
1915	47,370	571,560	29,560	648,490
1916	103,844	1,006,020	169,660	1,279,524
1917	$ 54,884	$1,319,892	$272,161	$1,646,937

It will be seen from the tabulation that the 1917 results were by far the best for some years past. In 1916 when the earnings of these three properties totaled $1,279,524 the company showed 7.2% on the preferred stock and at the same ratio, other things being equal, the year 1917 would have shown better than 9% on the preferred. This is of course only an approximation but it serves to bring out that Federal's affairs have materially improved during the last few years.

As seen by the tabulation, approximately 80% of Federal earnings from the three properties mentioned came from the Morning mine. In its day this mine was the greatest silver-lead producer in the world. It was the Morning property that was responsible for the great days of Federal and the company's earnings would never have slumped to the extent they did had not the Morning ore become "refractory." That is, the ore changed in character so that its treatment became exceedingly difficult and recoveries dropped from above 80% to between 50 and 60%. For a long time efforts to solve the problem of Morning's refractory ores were without

Those who are familiar with the history of Federal Mining have always stated that once the problem of the Morning ores was solved Federal could look into the future with confidence. In the language of the pick and shovel men it is a "whale of a property." The ore is there all right but the difficulty is how to get it out economically.

According to interests in close touch with Federal's affairs the recoveries at the Morning mine *are now running between* 80 *and* 90%. This accounts in part at least for Federal's astonishing reverse in form this year as shown by the following tabulation of monthly net earnings to date:

1918	Profit	Deficit
January	......	$59,034
February	......	32,293
March	$ 64,840	......
April	32,397	......
May	134,874	......
June	90,178	......
July	98,255	......

These earnings are figured after all charges including depreciation. From a deficit in the first two months of the current year it will be seen that Federal's earnings turned to the right side of the ledger until in the last quarter

they totaled better than $323,000, or at the rate of approximately $1,293,000 annually, which would equal 10¾% on the company's preferred stock.

New Properties

Federal's improving earnings are not due entirely to improved treatment processes in its Morning mine. This year two acquisitions are playing an important part in its earnings. One of them is the Lucky O. K. zinc property in Oklahoma. This is earning about $4,000 weekly or better than $200,000 annually. The other is the Government Gluck Development Co., in Idaho, consisting of one patented and six unpatented claims near the Black Hawk Mines in the Wardner. This is a lead proposition and Federal owns 414,000 shares of its 1,000,000 shares of stock. Although no figures are available, it is understood that Federal is making substantial earnings from its interest in this property and it is expected that these earnings will increase from now on.

Quick Assets Position

Of late years Federal has followed the policy of liberal writings off including depreciation. The company moreover is in excellent financial position. Quick assets on December 31 last totaled $2,749,861 and liabilities $467,593, giving the company a working capital of $2,282,268. It will be perceived that cash alone totaled nearly two years full 7% preferred dividend requirements.

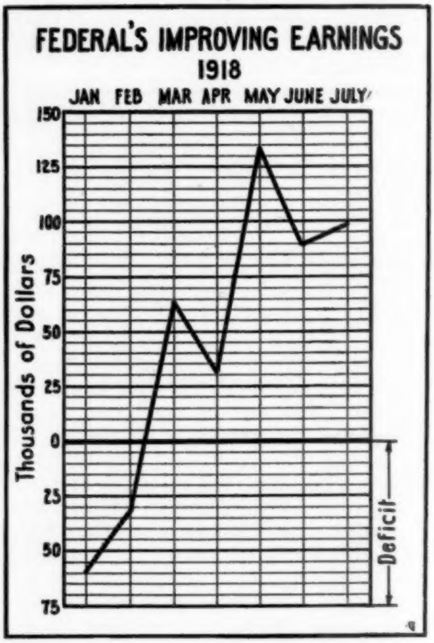
QUICK ASSETS

28,000 shares of the capital stock of Bunker Hill & Sullivan Mining & Concentrating Co...... (Note: Carried at par value of $10.00 per share; last known quotation $50.00 per share.)	$ 280,000
Liberty bonds (First issue).......	60,000
Liberty bonds (Second issue)....	360,000
Sundry Mining Stocks...........	36,262
Materials and Supplies..........	276,745
Accounts Receivable	415,697
Cash	1,601,157
Total	$2,749,861

LIABILITIES

Accounts payable	467,593
Working Capital	$2,282,268

At the present quotation of 39 Federal Mining & Smelting preferred yields approximately 18% as it is paying its full $7 per annum on the preferred stock and that issue looks cheap on Federal's improved earnings and prospects. Last year the preferred sold as high as 54¾ and in 1916 up to 57½. While it would be a rash statement to say that Federal may expect times equal to those of its former greatness, it certainly is a conservative observation that the property now looks better than for some years past.



The company's common stock does not appear to promise much in the way of profits but the preferred is too low on earnings and outlook. There are 9¾% unpaid accumulated dividends on the senior issue and with the company's earnings continuing at the rate they are now running, there is a strong probability that something will be done this year in the way of liquidating that accumulated dividend account.

Mining Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell

AMERICAN SMELTING & REFINING—No Stock Issue—Filing of amended articles of incorporation in State of Utah, showing an increase in authorized capital stock from $100,000,000 to $115,000,000, had given rise in some quarters to erroneous belief that company proposes to issue new stock. Company is incorporated in the State of New Jersey and authorization was received from State about a year ago to increase authorized capitalization to $115,000,000, including $50,000,000 pfd. and $65,000,000 common. At that time amount of common stock outstanding was increased from $54,229,000 to $60,998,000. There is no intention to issue more stock. The amended articles were filed in Utah merely on account of operations in that State.

ANACONDA—Control Walker Group—Has obtained complete control of Walker group of copper mines, Plumas copper field, through its subsidiary, the International Copper Co.

ARIZONA COMMERCIAL—Development Plans—Increased interest in stock was a reflection of company's aim to prosecute a broad development program and at same time maintain a maximum output of copper. In July it produced 530,000 lbs. of metal, bringing total output for the seven months of 1918 up to 3,330,000 lbs., and by fall monthly production should cross the 600,000-lb. mark. On 15th level, west of Budget Fault, Arizona Commercial has cross-cut into a body of basic ore, that has shown a width of 15 feet. Strike gives Arizona Commercial one continuous ore body from 7th down to 15th level. The new vein shows ore that is low in silica, permitting a high copper recovery at low cost. The ground 1,000 feet east of Copper Hill shaft has been cleared and company has started sinking its new shaft at this point.

BUTTE COPPER & ZINC—Production—July production of manganese was over 9,000 tons, the largest to date. Zinc production was 2,000 tons, higher in zinc, lead and silver values than in previous months.

CHIEF CONSOLIDATED—Report—Shows shipments of 18,039 dry tons of ore which yielded $604,196, after payment of smelting, transportation and sampling; the net profits were $294,099. Is carrying $420,000 in Liberty Bonds and $441,326 cash reserves. The gross value of all ore, excepting manganese, was $48.19 a ton; smelting, freight and sampling, $14.69 a ton, leaving net $33.50 a ton. Has paid a total of $1,124,342 in dividends.

CONSOLIDATED MINING & SMELTING—Receipts—Trail Smelter received 200,237 tons of ore in first seven months of 1918, compared with 200,145 tons in corresponding period last year. The July receipts exceeded June by 3,000 tons. July aggregated 7,614 tons.

DALY-WEST—Special Meeting Capital Increase—Special meeting of shareholders to increase capital to $5,000,000 divided into 250,000 shares of the par value of $20. The stock will be issued full paid and nonassessable. The special meeting of the shareholders called for June 20 was adjourned, because proxies for necessary two-thirds or 120,000 shares failed to arrive in time.

DAVIS-DALY—Earnings—Fiscal year ended June 30, 1918, was most profitable in history of company. Profits were all made in final nine months, for in first quarter company was handicapped by labor difficulties, which with purchase of new equipment, all charged to operating expenses, resulted in a deficit of $12,000 for that period. This, however, was overcome in second quarter, that ending Dec. 31, and on a production of 1,773,701 lbs. of copper and 76,500 ounces of silver company earned net profits of $144,474. In first three months of 1917 Davis-Daly made its record showing. It encountered full width of Hesperus vein in its Colorado mine and on 2,300 and 2,500-foot levels rich copper ore was mined in considerable tonnages. Net in this period totaled $266,458 on a production of 2,688,150 lbs. of copper and nearly 160,000 ounces of silver.

FEDERAL MINING & SMELTING—Report—Net profit for July, 1918, after allowing for all deductions including depreciation, was $98,255. This compared with a net profit of $90,179 in June; $134,874 in May; $32,397 in April; $64,840 in March, and a loss of $33,203 in February.

FRANKLIN MINING—Operations Resumed—Franklin mill has resumed operations following a suspension of about a fortnight as result of a satisfactory adjustment of shipment charges with Railroad Administration. The company had filed a protest with Railroad Administration on excessive rate increase as affecting mine's shipments of rock.

HULL COPPER—Suit Compromised—Brought in Arizona courts by William H. Kemp and other minority stockholders in Hull Copper Co. against Charles W. Clark, trustee for Senator Clark and his associates, had been compromised and a judgment entered terminating the litigation. The mi-

nority sought to have a large amount of stock held by Mr. Clark cancelled, and judgment in effect cancels 2,500,000 shares of Hull Copper's capital stock held by Mr. Clark and secured by him from George W. Hull, deceased, and same is returned to the company. Mr. Clark's title to remaining stock held by him is confirmed as a result of judgment.

INSPIRATION COPPER — Labor Shortage—Operations continue to be hampered by labor shortage, with result that it has been impossible to run more than 14 to 16 units of big concentrator, which at times has run its entire capacity of 20 sections. Until labor difficulty cleans up production will remain close to current level of 9,000,000 pounds monthly. Including July wage advance, company pays its men $5.90 a day. This scale has made a substantial impression on cost sheet, but Inspiration, always figured among lower cost producers of copper, probably stills holds relatively same position under existing conditions.

LAKE COPPER—Report—Net loss of $30,834. The production amounted to 1,461,893 lbs. of copper, which sold at an average of 25.57c. per lb., and netted $373,814. Miscellaneous receipts increased income to a total of $390,165. Operating expenses were $391,647; taxes, $21,804, and new equipment cost $7,547. Rock stamped was 63,191 tons, yielding 2,246,145 lbs., averaging 65.07% copper.

MIAMI COPPER—Production—Due to big improvement in production operations at property, production made a new high record in August, registering an increase of 25,189 lbs. over 5,349,000 lbs. turned out in June, 1917, previous high record month. August output of 5,374,198 lbs. brought eight months' figure up to 39,270,585 lbs., compared with 30,161,611 lbs. in corresponding period of 1917. If operations through remaining four months of year only approximate 5,000,000 lbs. monthly, total output should be in neighborhood of 60,000,000 lbs. This would compare with 43,028,262 lbs. in 1917 and 53,518,331 in 1916. Miami's 1918 production stands a good chance of making a new high record.

MICHIGAN COPPER—Shows Up Well—Butler lode shows well at sixth well and that the same condition exists on the third and fourth levels. The Evergreen lode also shows up encouragingly and rock from this formation is being sent to the mill. Some small mass deposits and good stamp grades were uncovered 130 feet northwest of shaft. The lode has not been identified, however, though miners assert rock is identical with that in Mass lode. Is shipping about three cars of rock daily to mill.

PACIFIC TUNGSTEN — Operations — 622 tons of ore had passed through mill, resulting in 63,897 lbs. of concentrates running 70%, which shows a value of $90 per ton. 138 tons of ore had been unloaded at mill and company should mine during August approximately 1,500 tons, valued at more than $100,000.

REX MINING CO. — Disbursement — Checks for first and last disbursement of this company, predecessor of Rex Consolidated Mining Co., have been sent to 700 stockholders. The total disbursed was $14,625, or at the rate of 9¾ mills on 1,600,000 shares. In addition to dividend holders received 1,000,000 shares of Rex Consolidated Stock. The legal dissolution of the old company followed.

SUPERIOR & BOSTON—Ore Body—Struck an ore body on 9th and 10th levels, east of McGaw fault, that assays 15% copper. This is believed to be continuation of same vein that on level above had been drifted on for 70 feet showing a width of 19 feet with face of drift still in ore. On the 10th level the deposit was entered for a distance of seven feet.

—TENNESSEE COPPER—Acid Price—Has been receiving $9 a ton for its sulphuric acid from International Agricultural Corp. under terms of a revised temporary contract. This compares with $4.81 a ton, price prevailing since original contract was made. Capacity of the acid plant will have been reached in 1918 for first time, with a yield estimated at slightly better than 300,000 tons. In one month acid output ran up to 30,000 tons.

TONOPAH EXTENSION — Development — Extensive development work in Merger and Victory veins continues to open milling-grade ore. Over 300 tons daily is being milled. There was a large flow of water struck in sinking Victory shaft 10 ft. below 1,750 level, retarding progress of work. A new pump is to be installed at 1680 level.

TUOLUMNE COPPER — Development Results—Ore body on 700-ft. level, for a width of 10 feet shows an average value of 4½% copper and about 12 ounces of silver to ton. On 825-ft. level, vein maintains a width of 20 ft. of high grade ore.

UNITED VERDE EXTENSION—Copper production for July is reported at 3,100,000 pounds, compared with 3,000,000 pounds in June. All ore is being transported to Verde smelter and as soon as new plant is running smoothly a monthly output of 5,000,000 pounds will be obtained. Quantity extraction of ore from mine is somewhat above average, and, recent advices state ores with silver content running from 200 to 2,000 ounces per ton have been sorted and sacked. Assessed value of $5,360,280 in 1916 jumped to $41,619,124 in 1918.

Buckeye Pipe Line's Growing Traffic

Business Largest Ever But Earnings Below High Records—The Reason Therefore—Earnings' Prospect

By J. W. SMALLWOOD

THE volume of traffic handled by Buckeye Pipe Line Company is now running at the largest rate since the Standard Oil dissolution.

So discouraging was the record of this and most of the other pipe line companies for several years following the dissolution that many investors interested in the Standard Oil securities lost all interest in the pipe line issues and have failed to notice the progressive tendency of earnings of some of these companies within the last few years.

Buckeye Pipe Line Company's traffic, earnings and dividends showed a rapid decline from 1912 to 1915, but since that period there has been a steady recovery and the increase in business has been especially marked since the beginning of the current year.

While the volume of traffic now handled by the company is very much larger than at any previous period for which pipe line statistics are available, its earnings are still far below the level prevailing immediately after the Standard Oil dissolution. This condition is due to two factors, one of which is a severe reduction in its rates as compared with those in effect up to 1913, and the other is the character of the business handled.

The Buckeye System

In order to appreciate the effect of the latter factor it is necessary to realize the nature and location of Buckeye's pipe line system. This system consists of an extensive net-work of gathering pipe lines reaching out to what is known as the Lima branch of Northern Ohio and to the Macksburg Division of Southeastern Ohio. This gathering line system consists of more than a thousand miles of pipe and taps the oil production of the entire state of Ohio. The business of gathering oil from the wells is a very profitable one, as the company receives a gathering charge of 20 cents a barrel in addition to the regular transportation charge for delivery of oil over its lines. This, together with the higher trunk line rates prevailing, accounted for the high earning power which was demonstrated for a time after the dissolution. In recent years, however, there has been a steady decline in production of the Central western oil fields which has been reflected in a reduction in the Buckeye Company's statistics covering runs from the wells, and there is little hope of any considerable increase in the output of these old Ohio fields in the future.

In addition to its extensive gathering line system, the Buckeye Company operates a trunk line system crossing the state of Ohio. At the western border this line connects with the Indiana Pipe Line. The latter line at Whiting, Indiana, joins the Prairie Pipe Line system, running from the Mid-Continent oil fields. At its eastern terminus the Buckeye connects with pipe lines running through to the East and at Cygnet, Ohio, with the Imperial Pipe Line running into Canada. Thus, the Buckeye trunk lines form an important link in the pipe line system extending from the Mid-Continent fields to the large consuming centers, and enormous quantities of Oklahoma and Kansas oil are transferred through the Buckeye lines, and part of it directly by the Buckeye refineries operating in the state of Ohio.

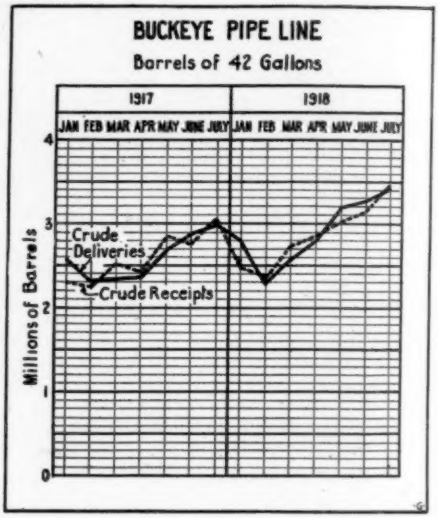
It is this trunk line business which is now more of a factor in Buckeye's affairs than at any previous time and although the earnings derived from the transportation of oil originating outside of Ohio are not so large as those obtained from trunk line traffic, it is nevertheless having a very favorable effect upon the company's current

earnings. As a result of the expansion of the refineries of the Standard Oil Company of Ohio at Cleveland, the Solar Refining Company at Lima, Ohio, and the Imperial Oil Company, Ltd., at Sarnia, Ontario, together with the greatly enlarged demand for Mid-Continent oil at the Atlantic seaboard, the deliveries of the Buckeye Company increased from 23,500,000 barrels in 1915 to almost 30,000,000 barrels in 1917. So rapid has been the increase in deliveries this year that in July the company delivered 3,412,127 barrels, which was at the rate of almost 41,000,000 barrels a year. That these increased deliveries have been made possible by the company receipts of Mid-Continent crude oil is shown by the record of its receipts from other lines. In 1914 its other receipts amounted to only 16,371,496 barrels and the following year saw the beginning of a steady increase in this class of business. Receipts for the year 1917 had reached 26,295,437 barrels and the total for July, 1918, amounted to 3,006,253 barrels, or at the rate of about 36,000,000 barrels yearly. In other words Buckeye's receipts of Mid-Continent crude are now running at the rate of more than double those of 1914.

Improvement in Earnings

The company's low record in point of earnings was reached in 1915, when its net profits amounted to $1,523,801, equivalent to 15%, or $7.50 a share, on the $10,000,000 capital stock of $50 par value.. 1916 earnings increased to more than $2,000,000, while the net profits for 1917 amounted to $2,380,083, equivalent to almost 24%, or $12 a share. The company has always been in a strong financial condition, having a large surplus represented principally by cash and gilt-edged investments. Its surplus was reduced somewhat up to 1915, but since that time has been gradually increasing and at the close of last year the stock had a book value of close to $100 a share, or double its par value. Of this amount $45.61 a share consisted of net cash assets.

The improvement in earnings has also been reflected in the declaration of increased dividends. Up to 1913, Buckeye shareholders were the recipients of very liberal dividends, the regular rate being 40% or $20 a share per annum. By 1915 the rate had been reduced to 16% and that rate was continued throughout the year 1916. During 1917, however, the company started



to pay extra dividends, bringing its total disbursements for last year up to 19%. So far during 1918 only one extra dividend of 2% has been paid, but the indications are that additional extras will be forthcoming, as earnings last year were considerably in excess of dividend requirements and should show a further improvement during the current year.

No Fixing of Rates

In considering the future of this and other pipe line companies many investors have been influenced by a misunderstanding of the pipe line companies' position with regard to rates.

Contrary to popular belief, the Interstate Commerce Commission has never interfered with the rates of the pipe lines and its only action with regard to pipe line rates has been to ap-

prove schedules which have been presented to it calling for increased rates. In 1913 the United States Supreme Court decided that the Prairie Oil & Gas and Ohio Oil pipe line systems, which were later transferred to the Prairie Pipe Line and Illinois Pipe Line companies, respectively, were common carriers, and required these companies to file schedules of rates at which they would carry oil for other companies. In determining these rates the Prairie company was obliged to consider the rate for the transportation of oil from the Mid-Continent field to the Gulf Coast by pipe line and thence by water to the Atlantic seaboard refineries. In order to compete with this rate the Prairie was obliged to file a rate which necessitated a general modification of rates by all lines from the Mid-Continent east. The reduction in rates was actually made necessary by the Supreme Court's decision, but was entirely voluntary on the part of the various pipe line companies.

The indications are that there will be no further general readjustment of rates and the future earnings of the Buckeye company will depend principally upon the amount of oil which is carried over its lines. Present indications are that its trunk line business will continue at a very favorable rate for some time to come.

Conclusion

At present quotations Buckeye Pipe Line stock, on the basis of the company's regular dividends of $8 a share per annum, shows a return of about 8½% and the extra dividend declared so far this year brings the yield up to more than 9½%. The stock is selling below its book value and there is little possibility of the regular dividend rate being endangered and the liklihood that extra disbursements will be made from time to time. Around its present level the stock appears to be a reasonably safe investment with possibilities of appreciation with a continuance of the company's present large business.

WAR THE CAUSE OF UTILITIES' PLIGHT

Except for the conditions resulting from the war, and which must gradually disappear as the financial and industrial structure of the country resumes its poise after the termination of hostilities, the public utilities of the country are inherently sound, writes O. B. Willcox, vice-president of Bonbright & Co., in the N. Y. *Tribune*. The unification and expansion of isolated and competing systems, the improvement in the machinery of generation and distribution, the economies of larger operations, have all tended in normal times to decrease costs of operation and to increase the use of public utility service of all kinds. On the other hand, that same increasing use of public service, the growth in population, the multiplying applications of power driven machinery, especially electrical appliances, have demanded larger and increasing capital for permanent investment, which public utilities have had difficulty in securing because of the restricting influences of public utility regulation. Nevertheless, the securities of sound public service companies have found increasing favor with investors of all classes and the amounts held by great financial institutions have been rapidly increasing in recent years through recognition of their inherent safety.

Costs of all material and labor entering into industrial operations may be expected to be higher after the war than in the complacent and easy going years of the period of public utility expansion and development, and rates must be higher, not only to meet this present emergency, but to assure the efficiency and constant expansion of all time and labor saving utilities in peace as in war. Capital requirements of utility companies will increase as machinery progressively displaces hand labor in modern industry, and that capital can be devoted to public utility expansion only if the current rates for money are earned and paid.

In the meantime the public utility question is indeed an urgent one, and its prompt solution presses upon those responsible for our war efficiency. It is not a local question; it is not a question of saving the investments of scattered individuals; it is not merely a question of safeguarding insurance companies and banks, whose funds are invested in public utility securities; it is not merely a question of safeguarding the general financial situation or providing stability of earnings and integrity of investments out of which war taxes and war loans can be raised. The public utility question is clearly a question of national war efficiency, which requires immediate emergency remedies in both higher rates and capital advances—efficiency which will help us win the war, which will save the lives of our soldiers and our allies' soldiers by supplying them more promptly with the tools of war; national efficiency which, impaired, means loss of untold lives and indefinite postponment of that day to which the whole anti-German world looks forward—the day of victory.

Oil Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell

CONTINENTAL REFINING — Dividend in Scrip—Directors declared regular monthly dividend of 1% on common. Scrip is convertible at par into common stock at any date prior to maturity at option of holder. If carried to maturity scrip will be redeemed with interest at rate of 70 per annum.

ILLINOIS PIPE — New Line — From Pilot Butte field in Wyoming to Riverton has been completed. Line serves field developed by Glenrock Oil Co. and first shipments will be at rate of about 1,800 barrels of oil a day. The oil is purchased by Midwest Refining Co. and is transported from Riverton to Caspar in tank cars.

INDIAN REFINING—Report—Shows net income of $1,580,206; dividends, $185,000; balance, $1,395,206; reserve for prospective taxes, $500,000; surplus, $795,206; previous surplus, $361,346; total surplus, $1,156,552. Balance sheet shows current assets of $5,552,976, current liabilities of $3,803,681 and total assets and liabilities of $12,822,092.

ISLAND OIL & TRANSPORT—Contract—Involving over 1,000,000 barrels of oil has been closed with one of the Standard Oil subsidiaries, to be delivered at Gulf ports in the company's own equipment, to begin in October. Also contracted with a New York refining concern to deliver oil at the company's Palo Blanco terminal.

If the anonymous correspondent who recently wrote us a letter in reference to Island Oil versus Metropolitan Petroleum will communicate with us under his right name we will be glad to learn any information which he may possess concerning that very interesting situation.—Editor.

MAGNOLIA PETROLEUM—Oil Port—Several of large oil companies operating in Mexico are establishing large storage and distributing facilities there. The Magnolia Petroleum Co. is operating a line of five oil barges between Tampico and Aransas Pass. It has two 55,000-barrel storage tanks.

MEXICAN PETROLEUM—Importance of Mexican Oil—United States needs 130,000,000 barrels of Mexican oil for war and industrial purposes in ensuing year. Production in United States, although at record rate of about 350,000,000 barrels a year, is not sufficient for domestic and foreign requirements, so an increasing part of the demand must be met by oil from Mexico. Twenty wells in Mexico if allowed to run at full capacity will yield 600,000 barrels daily, or an average of 30,000 barrels each. Casino basin in state of Vera Cruz, Mex., with an area of less than 1,000 acres, has yielded through one well, whose production has been restricted to a little more than 20,000 barrels a day by closing the valve, until it shows a pressure of 320 pounds to square inch, 70,000,000 barrels of oil. Cerro Azul well, located on another part of its property, is believed capable of several million barrels a month.

OKLAHOMA NATURAL GAS — New Co. — Stockholders' Rights — Stockholders would be given right to subscribe to unissued treasury stock to extent of 15% of holdings at par. Another corporation will be formed and Oklahoma Natural Gas Co. will convey its oil leases, gasolene plants, etc., to new concern, which will have capital of $3,000,000. Stock of new company will be distributed to stockholders of Oklahoma Natural Gas Co., each of whom is to receive in stock of new company 30% of his holdings in Oklahoma Natural Gas Co.

PIERCE OIL — Chartering Ship Increases Shipments—Motor ship "Espania" chartered for its Tampico-Texas City service, for shipment of asphalt and refined products from its refinery in Tampico, Mex. Operation of boat will enable company to treble its shipment of asphalt from Tampico.

SINCLAIR OIL & REFINING CORP.—Directors Re-elected—Fiscal Year and Meeting Date Changed—At annual stockholders' meeting officers of company were re-elected. It was voted to change fiscal year of company from June 30 to Dec. 31, to facilitate adjustment of taxes as required by new Government regulations. Annual meeting date was changed from third Wednesday of August to the third Wednesday of April.

UNION TANK LINE—Earnings Increased—Ruling handed down by Interstate Commerce Commission relative to operation of private cars has a distinct bearing on the affairs of company. Most important of these rulings is increase in allowance of ¼ of 1% per mile on empty and loaded movements for use of tank cars of all kinds by carriers, making one cent a mile. This should increase the company's earnings somewhat over $500,000 per annum. Earnings for 1917 fiscal year were $3,709,516, or $30.91 per share before deduction of Federal income and excess profits taxes. The latter amounted to $859,918, leaving $2,849,598 for stock, or equivalent of $23 per share. This compares with $17.25 per share earned in 1916, $8.89 in 1915, and $5.73 in 1914. Surplus increased from $317,348 on Dec. 31, 1913, to $5,463,778 on Dec. 31, 1917.

UNLISTED SECURITIES

THE SEARCHLIGHT

Offerings and Promotions of Merit and Demerit Discussed—Promotion Stunts Made Plain—Promotions which Furnish Legitimate Opportunities for Profit—Others which Provide A Ready Pitfall for the Uninitiated

By "QUIZZ"

Foreword

THE issues discussed in these columns are not specially selected for criticism at random. They are based upon inquiries on each individual subject which have come to THE MAGAZINE OF WALL STREET, and originals are on file for the inspection of those whom they might concern.

We invite discussion on the securities analyzed in these columns and if balance sheets, income accounts, or other proof is forthcoming to refute criticisms on our part, we will gladly consider and publish them in the interest of the promoters, sponsors and our readers.

Globe Oil Co.

One of the principal objections to this issue is the misleading statement which appears in the prospectus of its sponsors to the effect "dividends at the rate of 18% per year being paid." As dividends of 1½c a share are being paid monthly, or 18c a share annually, and as the stock is being sold at $1.25, the dividend yield is not 18 per cent.

The stock is being sold at $1.25, whereas the par value is $1. No good reason is forthcoming why the shares should sell above par, while seasoned listed stocks such as Republic Steel, Bethlehem Steel "B," Atchison, Southern Pacific, etc., are selling at a substantial concession below par. Globe Oil is surely not more meritorious than these, and we find nothing in the prospectus or circulars to indicate that Globe Oil is entitled to sell at a premium.

The company claims that it has no bonded debt, but we understand that there is a mortgage of $975,000 against its leases. If the company has any debt, bonded or otherwise, it would seem more conservative to pay these off rather than weaken the cash position by paying generous dividends. We fail to see any satisfactory explanation of this apparent lack of conservative financing, and can only conclude that the dividend is intended to make the stock attractive.

We observe that an extra dividend of 1% was declared in May, 1918. We would like to know whether in that same month the company also paid off some of its indebtedness.

While the company has a number of attractive leases, on which promising wells have been brought in, its unseasoned earning power is based upon high prices for oil and war prosperity.

Those who are sponsoring the company were formerly regarded as conservative, but they seem to have turned their attention to promotion issues, and, after all, sponsorship is only one favorable factor.

Burnrite Coal Briquette

The shares of this Company were recently introduced to trading on the New York Curb in a somewhat mysterious manner. Their introduction was preceded by financial advices from various sources advising a purchase and predicting "a lively market."

The market for the shares during the past week has fulfilled all promises as from an introductory level around 1¼ they rose to 5 and after declining to 4 again show an upward tendency.

The company, regarding which no detailed particulars are yet available, is reported to own valuable process for manufacturing coal "briquettes," which is a method of utilizing low grade coal to commercial advantage. It must be remembered that the process is not yet commercially proven, and it still remains to be seen whether the company can carry out its operations to such advantage that an earning power will be permanently established for the shares. Coal is now selling at abnormal prices and it is not to be expected that the abnormal profits which the coal companies are making during the war can last indefinitely. While coal prices remain high, a substitute would naturally enjoy a good sale, and if the Burnrite Company's process is a good one, it should be able to benefit to some extent under present conditions.

We understand that the shares have not been widely distributed, the majority of them are closely held by interests identified with the company, and the spectacular market of this week has the earmarks of an attempt to focus public interest on the stock to persuade "an outside following."

The shares are extremely speculative, especially at current inflated levels, and if an investor cannot lose money without embarrassment, a commitment should not be made in Burnrite coal until the company becomes more seasoned.

Cuprite Sulphur

Comparisons with Union Sulphur and Freeport Texas are irrelevant, by reason of geological and other essential differences. The Louisiana deposits occur as native sulphur lying below a 500-foot bed of quicksand, which have yielded to an ingenious cheap method of treatment. In this case, superheated water is passed through a tube to the sulphur bed, and the molten mass pumped to the surface through an outer "jacket." It is remarkably pure.

Admittedly, the Cuprite deposits consisting of "sulphur bearing material," as explained by Engineer Kirby Thomas, will not adapt themselves to a pump or siphon method of treatment. It is proposed to sublimate the ores at an estimated cost of $11.25 a ton. Scant details likewise "estimated" are given as the basis of arriving at such cost, unsupported by facts, and unbacked by exact knowledge of the geology of Nevada—so far as sulphur is concerned.

We hesitate to accept such estimate of working costs as applied to complex geology, and unknown working conditions. Early estimates are often necessary to revise later, sometimes with astonishing results. Alaska Gold is a familiar example of honest belief in certain theoretical opinions, which proved to be utterly wrong in practice.

The selling basis of sulphur, namely $40 to $60 a ton, is equally theoretical and temporary. The average pre-war selling price was $25. It is certain that a readjustment is coming, sooner or later, when foreign markets are open. With these two uncertain factors, profit is impossible to estimate, and estimated profits may result in losses.

Total proven and semi-proven ore reserves of 6,000 tons is equivalent to 2,400 tons of sulphur, allowing a liberal 40% grading, worth $57,600. If we allow the company a further $42,400 for its "additional low grade ore," we arrive at a valuation of $100,000 for ore reserves. This valuation is hypothetical upon the known facts, but affords a tangible basis of computation.

The shares at 2, giving the company a market valuation of $2,600,000. This is surely a too liberal capitalization for a prospect of its character. At around 1 and a valuation of $1,300,000 prospects would appear to be "discounted" well in advance of proven worth.

Flotations of the rare metals and minerals, such as tungsten, molybdenum, platinum, etc., have rarely benefited investors during the last three years. Practically all have failed, and their shares are no longer quoted. Personal inquiry on our part regarding market sponsorship, the nature of the market, and similar technical details have resulted in disappointment. The shares are ultra speculative.

Unlisted Securities Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell

AETNA EXPLOSIVES—Contracts for Sale of Acid—Judge Julius M. Mayer, of Federal Court, New York, authorized Benjamin B. Odell and George C. Holt, receivers, to enter into a contract with United States for sale of 4,500,000 lbs. of nitric acid and 4,500,000 lbs. of picric acid to Republic of France.

BRISCOE MOTOR—Plant Addition—At Jackson, Mich., company had started building in addition to plant No. "4." This was made necessary by large Government contracts for munitions. A great deal of incidental construction is also going on as a result of war work.

CURTISS AEROPLANE—Contract—Received a contract for 760 training planes from Bureau of Aircraft Production. Company is now almost at capacity production.

FORD MOTOR OF CANADA—Operation—At Ford City, Canada, opposite Detroit, has resumed operations with a reduction of 50% of working personnel. About 100 cars will be produced daily, while previous to recent temporary closing, the output averaged from 225 to 250 cars a day.

HUPP—Earnings—At rate of $100,000 to $150,000 per month, according to estimates of a semi-official nature. The company's passenger car production for fiscal year is estimated at 10,000 cars, a reduction from a planned production of 15,000. This reduction was voluntary and was made to conserve steel and material for war purposes. The volume of business lost through this sacrifice has been replaced by orders received from Government for war materials and motor trucks. With no bond issue outstanding, no floating debt, and current assets of about $2,000,000, of which approximately $1,200,000 is made up of cash, the company could discontinue the manufacture of passenger cars, close down the entire plant, if necessary, and resume operations at the close of the war with a tremendous advantage over most of its competitors.

JONES & LAUGHLIN STEEL—New Warehouse—Reports to build a steel plant on recently acquired property in Chicago were incorrect. The site will be used for building of a large warehouse, but for present only two bays of proposed warehouse will be erected.

MARCONI—New Orders—Another Source of Considerable Business Comes—Japanese Government is planning installation of a high powered wireless system between Japan and United States. The present Japanese high powered station communicates direct with Hawaii, and proposed station probably will work with a station on California coast. Details of new wireless project are expected shortly. On August 1 company paid a dividend of 5%, or 25c a share. This is the first disbursement since the initial dividend of 2% made August 1, 1913, and is believed to inaugurate regular dividend payments. The company's net income in 1917 was $617,172.69. If, as reported, earnings this year are running in excess of that amount, they are more than sufficient to maintain dividends at the rate of 5% annually.

SOUTH PORTO RICO SUGAR—Dividend in Scrip—Directors declared regular quarterly dividend of 5% on common, payable in scrip, and 2% on pfd., payable in cash. Both dividends are payable Oct. 1 to holders of record Sept. 24.

STROMBERG CARBURETOR—Extra Dividend—Directors declared an extra dividend of 25 cts., in addition to regular quarterly dividend of 75 cts. a share, both payable Oct. 1 to holders of record Sept. 14.

TRIANGLE FILM — Report — Shows cash on hand amounting to $49,317; accounts receivable, $68,860; accounts payable, $189,627; notes payable, $277,630, and profit and loss surplus, $671,465. Among the assets are $270,135, representing investments in other companies and $130,951 inventories.

TRUMBULL STEEL—Issue Additional Stock — Permission granted by Capital Issues Committee to issue $2,000,000 additional common stock, which is part of an authorization of $8,000,000 approved several months previously. Now capitalized at $20,000,000, of which $14,000,000 is common and $6,000,000 pfd. Of this amount $12,000,000 is outstanding. Proceeds from sale of stock will be used for current needs. Stockholders will be entitled to subscribe to the new issue to the extent of one-third of their holdings.

UNITED MOTORS—Contract—For fog horns to Klaxon company, one of United Motors' subsidiaries. Klaxon's business is rapidly growing, and only recently company purchased an entire block of land near its present plant at Newark, N. J. In addition to obtaining war orders, running into many millions of dollars, United Motors subsidiaries, as production of passenger automobile decreases, are giving more and more attention to the manufacture of equipment for motor trucks and tractors. The combination of companies making up United Motors is largest manufacturer of automobile and truck accessories in country.

WRIGHT-MARTIN—Plans for Addition—At Long Island City, company has filed plans for a one-story brick addition, 109 x 499 ft., to cost about $400,000.

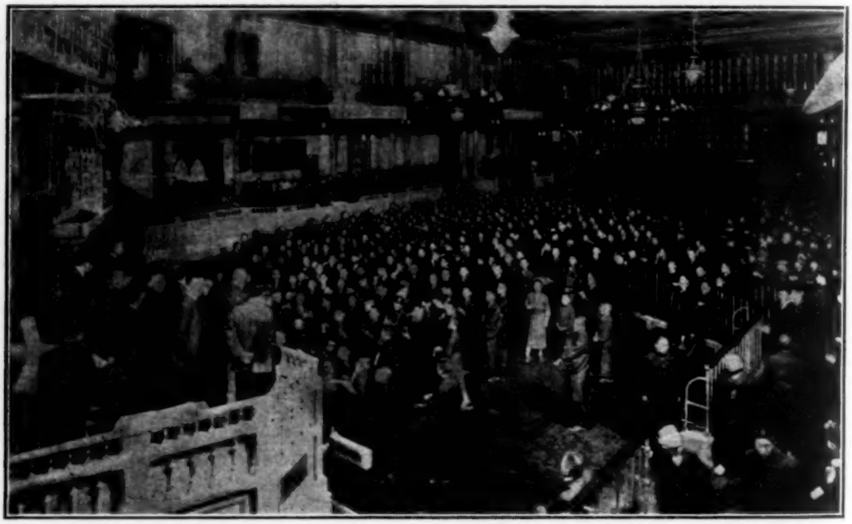
TOPICS FOR TRADERS

The World's Noisiest Stock Exchange

Tokio, Japan, Is Its Location—Brokers Carry Fans and Clap Their Hands—The Exchange Guarantees All Transactions

By ROBERT H. MOULTON

FOR picturesqueness the Tokio Stock Exchange has no rival. In addition to the quaint decorations in the exchange hall and the huge boards covered with Japanese characters, all of the brokers without exception wear kimonas and carry fans, the only persons wearing European garb being the recorders of prices.



Interior of the Tokio Stock Exchange

As a noise maker, too, this exchange is undoubtedly champion of the world. Beside it the New York Stock Exchange basks in an atmosphere of comparative calm, while even the famed wheat pit of the Chicago Board of Trade, which has generally been considered the most clamorous place of business in the world, comes in a poor second. The Japanese brokers do almost everything except to give college cheers; they shout and yell and whistle, and vary their sawings of the air with their hands and arms, in the process of trading, by occasional bursts of hand-clapping, and as hand-clappers they do not yield even to a Metropolitan audience applauding their favorite prima donna. What the hand clapping is for they do not explain; it seems to be just a habit, or it may be only a means of getting rid of some of their surperfluous energy.

In making trades the Tokio brokers use their fingers to indicate prices and quantities much as is done in the ex-

changes of this country. Prices are also recorded on boards as with our exchanges, but instead of being simply blackboards on which the figures are written with chalk, there are boards of red, white and blue, each color representing something. For instance, a red board shows quotations of two days before, a white board quotations of one day before, and a blue board the current days quotations. And instead of recording their sales and purchases as our brokers do, the Tokio brokers use books for this purpose. Telegraphic communications are received in much the same manner as ours, and there are numerous tickers scattered about the room.

The Tokio Exchange, as well as all other exchanges in Japan, is under the control of the Minister of Agriculture and Commerce who is responsible for any irregular trading or improper acts on the part of the Exchange members. Therefore the regulation by the Government is strict, one requirement being that the Exchange itself shall guarantee the trades of its members. Furthermore, every trade made on the Tokio Exchange must be made on the floor of the Exchange by a broker. There are both cash brokers and brokers who handle trades for forward delivery, the cash brokers being prohibited from trading in futures.

While officers and members of the Exchange are elected in the regular way, all candidates for office and all applications for membership must first be approved by the Minister of Agriculture. In addition to these safeguards, brokers in futures must deposit $6,000, and cash brokers $2,500 as a guarantee that they will conform to the rules of the Exchange, both classes of brokers being governed by the same rules.

There are two kinds of cash trades; one which must be consummated within five days and another which must be consummated within 150 days. The future trades are confined to a period of three months when the trades must be closed.

As the hours for trading are determined by time fixed by the Government it can not be extended to meet the exigencies of the market. For the last year or two the market has opened at 9 in the morning, with a recess of one hour at noon, and then a continuation of the session until five o'clock.

The first Exchange in Japan was established at Osako about three hundred and fifty years ago. At first this Exchange dealt only in rice, but afterwards included oil, gold and silver. Other Exchanges followed this until now there are 48 in the country. No attention was paid to the Exchanges by the Government for a long time, but eventually abuses grew up, and then laws of control were enacted. Up to 1878 the Tokio Exchange trades were confined to merchandise, but that year trading in futures was introduced and has continued ever since.

Stenographers, Typewriters Help Win the War

You are urged, as a patriotic duty, to enter the Government service in Washington, D. C., for important war work as stenographers and typewriters.

Women, especially, may thus aid in the nation's great effort. Men also are needed.

Those who have not the required training are encouraged to undergo instruction at once.

Tests are given in 550 cities every Tuesday.

The Government maintains a list of available rooms in private houses in Washington and is erecting residence halls to accommodate thousands.

Full information and application blanks may be obtained from the Secretary of the Local Board of Civil Service Examiners at the post office or customhouse in any important city.

John A. McIlhenny,
President, U. S. Civil
Service Commission,
Washington, D. C.

IMPORTANT DIVIDEND ANNOUNCEMENT

To Obtain a Dividend Directly from a Company the Stock Must Be Transfered Into the Owner's Name Before the Date of the Closing of the Company's Books.

Ann. Rate	Name	Amount Declared		Books Close	Payable
$8	**Ahmeek Min**	$2	Q	*Sept. 7	Sept. 27
$6	Allouez Min	$1.50	Q	*Sept. 11	Sept. 25
6%	Am Beet Sugar p.	1½ %	Q	*Sept. 14	Oct. 2
8%	Am Beet Sugar c.	2 %	Q	*Oct. 11	Oct. 31
7%	Am Br Shoe & F c	1¾ %	Q	*Sept. 20	Sept. 30
8%	Am Br Shoe & F p	2 %	Q	*Sept. 20	Sept. 30
....	Am Br Sh & F p x	1 %		*Sept. 20	Sept. 30
$6	Am Express	$1.50	Q	*Aug. 31	Oct. 1
5%	Am Hide & Lthr p.	2½ %	S	*Aug. 31	Oct. 1
....	Am H & L p x xx	2 %		*Aug. 31	Oct. 1
$3.60	Amer Internat, p	90c	Q	*Sept. 16	Sept. 30
$3.60	Amer Internat, c.	90c	Q	*Sept. 16	Sept. 30
7%	Amer Linseed p...	1¾ %	Q	*Sept. 14	Oct. 1
7%	Am Loc p........	1¾ %	Q	*Sept. 16	Oct. 21
5%	Am Loc c..........	1¼ %	Q	*Sept. 16	Oct. 3
12%	Amer Radiator, c..	3 %	Q	*Sept. 21	Sept. 30
6%	Am Smelt & Rf c..	1½ %	Q	*Aug. 23	Sept. 16
7%	Am Sugar Refin p.	1¾ %	Q	*Sept. 3	Oct. 2
7%	Am Sugar Refin c.	1¾ %	Q	*Sept. 3	Oct. 2
....	Am Sugar Ref c x	¾ %		*Sept. 3	Oct. 2
8%	Am Tel. & Tel....	2 %	Q	*Sept. 20	Oct. 15
20%	Atl Ref	5 %	Q	*Aug. 20	Sept. 15
7%	**Barrett, p**	1¾ %	Q	*Sept. 26	Oct. 15
7%	Barrett, c	1¾ %	Q	*Sept. 12	Oct. 1
8%	Beth Steel 8% p..	2 %	Q	*Sept. 16	Oct. 1
7%	Beth Steel 7% p..	1¾ %	Q	*Sept. 16	Oct. 1
10%	Beth Steel c A....	2½ %	Q	*Sept. 16	Oct. 1
10%	Beth Steel c B....	2½ %	Q	*Sept. 16	Oct. 1
7%	Booth Fisheries, p	1¾ %	Q	*Sept. 16	Oct. 1
$2	Booth Fisheries, c	50c	Q	*Sept. 16	Oct. 1
6%	Bordens C Milk, p	1½ %	Q	*Sept. 1	Sept. 15
6%	B'lyn Union Gas..	1½ %	Q	*Sept. 14	Oct. 1
$4	**Calif. Packing, c..**	$1	Q	*Aug. 31	Sept. 16
$8	Calumet & Arizona	$2	Q	*Sept. 16	Sept. 23
4%	Canadian Pac p..	2 %	S	*Aug. 31	Oct. 1
10%	Canadian Pac c...	2½ %	Q	*Aug. 31	Oct. 1
$7	Case Thresh Mach, p	$1.75	Q	*Sept. 16	Oct. 1
7%	Central Leather, p	1¾ %	Q	*Sept. 16	Oct. 1
$12	Chesebrough Mfg.	$3	Q	*Aug. 31	Sept. 20
....	Chesebrough Mfg. x	50c		*Aug. 31	Sept. 20
8%	Chicago Tel	2 %	Q	*Sept. 28	Sept. 30
6%	Cities Service p..	½ %	M	*Sept. 14	Oct. 1
6%	Cities Service c...	½ %	M	*Sept. 14	Oct. 1
....	Cities Service c x..e	¼ %		*Sept. 14	Oct. 1
4%	Comput-Tab-Rec ..	1 %	Q	*Sept. 25	Oct. 10
7%	Consolidated Gas..	1¾ %	Q	*Aug. 7	Sept. 16
8%	Cons Gas, El Lt & P	2 %	Q	*Sept. 14	Oct. 1
$12	Continental Oil ...	$3	Q	*Aug. 26	Sept. 16
7%	Cuba Cane Suga p	1¾ %	Q	*Sept. 14	Oct. 1
7%	Cuban Am Sug, p	1¾ %	Q	*Sept. 16	Oct. 1
10%	Cuban Am Sug, c.	2½ %	Q	*Sept. 16	Oct. 1
9%	**Del & Hudson....**	2¼ %	Q	*Aug. 28	Sept. 20
8%	Diamond Match ..	2 %	Q	*Aug. 31	Sept. 16
7%	Domin Ir & Steel p	3½ %	S	*Sept. 14	Oct. 1
5%	Dominion Steel c..	1¼ %	Q	*Sept. 5	Oct. 1
6%	duPdeN & Co deb stk	1½ %	Q	*Oct. 10	Oct. 25
18%	duP deN & Co, c..	4½ %	Q	*Aug. 31	Sept. 16
7%	**Eastern Steel 1 p.**	1¾ %	Q	*Sept. 2	Sept. 16
7%	Eastern Steel 2 p..	1¾ %	Q	*Sept. 2	Sept. 16
10%	Eastern Steel c....	2½ %	Q	*Oct. 1	Oct. 15
6%	Eastman Kodak p..	1½ %	Q	*Aug. 31	Oct. 1
10%	Eastman Kodak c..	2½ %	Q	*Aug. 31	Oct. 1
....	Eastman Kodak c x	2½ %		*Aug. 31	Oct. 1
7%	**Federal M & S p..**	1¾ %	Q	*Aug. 26	Sept. 15
7%	Fed Sug Refin, c..	1¾ %	Q	*Sept. 6	Sept. 15
6%	**Galv Houston El, p**	3 %	S	*Sept. 3	Sept. 16
6%	Gen Chemical, p..	1½ %	Q	*Sept. 17	Oct. 1
8%	Gen Elect	2 %	Q	*Sept. 14	Oct. 15
7%	Goodrich (B F) p.	1¾ %	Q	*Sept. 20	Oct. 1
4%	Goodrich (B F) c.	1 %	Q	*Nov. 5	Nov. 15
7%	Gulf Sts Steel 1 p	1¾ %	Q	*Sept. 15	Oct. 1
6%	Gulf Sts Steel 2 p	1½ %	Q	*Sept. 15	Oct. 1
10%	Gulf State Steel, c	2½ %		*Sept. 16	Oct. 1
6%	**Harb-Walker Rf p**	1½ %	Q	*Oct. 9	Oct. 19
7%	**Indian Ref, p....**	1¾ %	Q	*Sept. 5	Sept. 16
12%	Indian Ref, c....	3 %	Q	*Sept. 5	Sept. 16
10%	Int. Rap Trans...	2½ %	Q	*Sept. 20	Oct. 1
6%	Internat'l Salt ...	1½ %	Q	*Sept. 14	Oct. 1
7%	Int'l Silver, p.....	1¾ %	Q	....	Oct. 1
$2	Isle Royale Copper	50c	Q	*Sept. 7	Sept. 27
$2	**Kennecott Copper.**	50c	Q	*Sept. 9	Sept. 30
....	Kenn Cop, x dd..	50c		*Sept. 9	Sept. 30
$1	Kerr Lake Mining	25c	Q	*Aug. 31	Sept. 16
6%	**Lackawanna Steel.**	1½ %	Q	*Sept. 10	Sept. 30
7%	Lig & Myers Tob, p	1¾ %	Q	*Sept. 16	Oct. 1
4%	**Mackay, p**	1 %	Q	*Sept. 7	Oct. 1
6%	Mackay, c	1½ %	Q	*Sept. 7	Oct. 1
7%	Maxwell Mo, 1 p d	1¾ %	Q	*Sept. 10	Oct. 1
8%	Mexican Petrol, p.	2 %	Q	*Sept. 14	Oct. 1
8%	Mex Petrol, c y..	2 %	Q	*Sept. 14	Oct. 10
7%	**National Biscuit, c.**	1¾ %	Q	*Sept. 30	Oct. 15
7%	Nat Enam & Stp p	1¾ %	Q	*Sept. 10	Sept. 30
6%	Nat Enam & Stp c.	1½ %	Q	*Nov. 9	Nov. 29
5%	National Lead c..	1¼ %	Q	*Sept. 13	Sept. 30
20%	N Y Air Brake...	5 %	Q	*Sept. 3	Sept. 20
12%	Niles-Bement-Pnd c	3 %	Q	*Sept. 3	Sept. 20
7%	Norfolk & Wstn c.	1¾ %	Q	*Aug. 31	Sept. 19
5%	North Amer	1¼ %	Q	*Sept. 16	Oct. 1
$5	**Ohio Oil**	$1.25	Q	*Aug. 30	Sept. 30
....	Ohio Oil, x........	$4.75		*Aug. 30	Sept. 30
$7	Owens Btl Mach, p	$1.75	Q	*Sept. 22	Oct. 1
$3	Owens Btl Mach, c	75c	Q	*Sept. 22	Oct. 1
....	Owens Bt M, c x xx	50c		*Sept. 22	Oct. 1
7%	**Packard Mot Car, p**	1¾ %	Q	*Aug. 30	Sept. 16
8%	Pierce Ar'w Mot, p	2 %	Q	*Sept. 16	Oct. 1
$5	Pitts Coal (Pa) c..	$1.25	Q	*Oct. 10	Oct. 25
12%	**Quaker Oats, c...**	3 %	Q	*Oct. 1	Oct. 15
....	Quaker Oats, c x..	1 %		*Oct. 1	Oct. 15
7%	**Ry Steel-Sprng p.**	1¾ %	Q	*Sept. 7	Sept. 20
5%	Ry Steel-Sprng c.	1¼ %	Q	*Sept. 16	Sept. 30
7%	Rep Ir & Steel, p	1¾ %	Q	*Sept. 18	Oct. 1
6%	Rep Ir & Steel, c	1½ %	Q	*Oct. 15	Nov. 1
7%	**Savage Arms 1 p..**	1¾ %	Q	*Aug. 31	Sept. 15
6%	Savage Arms 2 p..	1½ %	Q	*Aug. 31	Sept. 15
6%	Savage Arms c....	1½ %	Q	*Aug. 31	Sept. 15
7%	Sears Roebuck, p.	1¾ %	Q	*Sept. 14	Oct. 1
6%	Southern Pac. ..	$1.50	Q	*Aug. 31	Oct. 1
$20	South Penn Oil...	$5	Q	*Sept. 12	Sept. 30
8%	S Porto Rico Sug, p	2 %	Q	*Sept. 14	Oct. 1
20%	S Port Ric Sug, c d	5 %	Q	*Sept. 14	Oct. 1
10%	Stand Oil of Cal..	2½ %	Q	*Aug. 15	Sept. 16
....	Stan Oil of Cal x.xx	2½ %		*Aug. 15	Sept. 16
$12	Stand Oil of Ky..	$3	Q	Sept. 16	Oct. 1
$12	Stan Oil of Ohio..	$3	Q	*Aug. 30	Oct. 1
....	Stan Oil of Ohio x	$1		*Aug. 30	Oct. 1
$6	Stutz Mot Car o Am	$1.25	Q	*Sept. 16	Oct. 1
10%	**Texas Co.**	2½ %	Q	*Sept. 12	Sept. 30
8%	Tidewater Oil	2 %	Q	*Sept. 14	Sept. 30
....	Tidewater Oil, x..	3 %		*Sept. 14	Sept. 30
7%	**Underwood Type p**	1¾ %	Q	*Sept. 16	Oct. 1
6%	Underwood Type c	1½ %	Q	*Sept. 16	Oct. 1
4%	Union Pacific p...	2 %	S	*Sept. 3	Oct. 1
10%	Union Pacific c...	2½ %	Q	*Sept. 3	Oct. 1
5%	U S Steel c......	1¼ %	Q	*Aug. 30	Sept. 28
....	U S Steel c x....	3 %		*Aug. 30	Sept. 28
6%	**West Pac R R C, p**	1½ %	Q	*Sept. 20	Oct. 1
7%	Woolwrth (F W) p	1¾ %	Q	*Sept. 10	Oct. 1
7%	Worth P & M, p A.	1¾ %	Q	*Sept. 20	Oct. 1
6%	Worth P & M, p B.	1½ %	Q	*Sept. 20	Oct. 1

*Dividend payable to stockholders of record of this date.
x Extra dividend.
d Paid in scrip.
dd Capital distribution.
e Paid in common stock.
xx Paid in Liberty Loan Bonds.
y Partial distribution of assets in liquidation.